CANADA

NATIONAL ENERGY BOARD
REASONS FOR DECISION

In the Matter of the Application Under
Part IV of the National Energy Board Act
(Tolls Application)

of

WESTCOAST TRANSMISSION COMPANY LIMITED

AUGUST 1983

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Ce rapport est publié
séparément dans les
deux langues officielles.

Recital and Appearances

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder;

AND IN THE MATTER OF an application by Westcoast Transmission Company Limited (hereinafter called "Westcoast", "the Company" or "the Applicant") for certain orders respecting tolls pursuant to Part IV of the National Energy Board Act, filed with the Board under File No. 1562-W5-5;

AND IN THE MATTER OF a submission by Westcoast respecting its operating and maintenance expense budget pursuant to Order No. TG-5-79, filed with the Board under File No. 1562-W5-3.

HEARD in Vancouver, British Columbia on 19,20,21,22,25,26,27,28 and 29 April 1983 and 2,3, and 4 May 1983 and in Hull, Quebec on 16,17,18,19,20,24,25,26 and 31 May 1983 and 1 and 2 June 1983.

BEFORE:

A.D. Hunt	)	Presiding Member
A.B. Gilmour	)	Member
W.G. Stewart	)	Member

APPEARANCES:

John Lutes	)	Westcoast Transmission Company Limited
P.G. Griffin	)	
Joseph M. Pelrine	)	British Columbia Petroleum Corporation
David Searle, Q.C.	)	
Alison Murray	)	
David C. Duff	)	British Columbia Hydro and
L.F. Hindle	)	Power Authority
P. Lloyd	)	Inland Natural Gas Co. Ltd.
J.O. Wesler	)	
John B. Ballem, Q.C.	)	Canadian Petroleum Association
	)	and Independent Petroleum
	)	Association of Canada
R.B. Wallace	)	Council of Forest Industries of
R.J. Bauman	)	British Columbia

David J. DeBiasio	)	Cominco Ltd.
W. Murray Smith	)	Dome Petroleum Limited
J. William Gallagher	)	Petro-Canada
Robert Cohen	)	TransCanada PipeLines Limited
Arthur L. Shillington	)	Union Gas Limited
N. Hall	)	Pan-Alberta Gas Ltd.
C. Gustafson	)	Consumers Glass Company Limited
N.J. Schultz P.G. Rogers	))	National Energy Board

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Abbreviations

Act	-	National Energy Board Act
AFUDC	-	Allowance for Funds Used During Construction
Applicant	-	Westcoast Transmission Company Limited
Board	-	National Energy Board
BCPC	-	British Columbia Petroleum Corporation
B.C. Hydro	-	British Columbia Hydro and Power Authority
CCA	-	Capital Cost Allowance
CICA	-	Canadian Institute of Chartered Accountants
Company	-	Westcoast Transmission Company Limited
Consumers Glass	-	Consumers Glass Company Limited
COFI	-	Council of Forest Industries of British Columbia
the Corporation	-	British Columbia Petroleum Corporation
COV	-	Coefficient of Variation
CPA/IPAC	-	Canadian Petroleum Association and Independent Petroleum Association of Canada
DCF	-	Discounted Cash Flow
Dome	-	Dome Petroleum Limited
Inland	-	Inland Natural Gas Co. Ltd.
IRR	-	Investor Required Rate of Return
NEB	-	National Energy Board
NEB Act	-	National Energy Board Act
NOVA	-	NOVA, AN ALBERTA CORPORATION
Pan-Alberta	-	Pan-Alberta Gas Ltd.

TransCanada, TCPL	-	TransCanada PipeLines Limited
Union Gas	-	Union Gas Limited
1982 Variance Report	-	1982 budget variance report
Westcoast, WTCL	-	Westcoast Transmission Company Limited
1982 O & M Budget	-	1982 operating and maintenance expense budget
1983 O & M Budget	-	1983 operating and maintenance expense budget

CHAPTER 1

Executive Summary

(NOTE: This summary is provided solely for the convenience of the reader and does not constitute part of this decision or the reasons for it.)

1.1 The Application

In August 1982, the Board indicated its intention to hold a public hearing into Westcoast's 1983 O & M Budget submission, 1982 Budget Variance Report, and all other matters relating to the Company's cost of service tolls which appeared relevant to the Board.

Westcoast submitted its 1983 O & M Budget in November 1982, applied to the Board for an increase in its rate of return on rate base and an interim order in December 1982, and submitted its 1982 Budget Variance Report in February 1983.

In addition to the above three matters, the Board considered the method of regulation of Westcoast, certain rate base and cost of service matters, the method of determining income taxes, Westcoast's capital structure and the Company's compliance with the Federal Government's restraint program.

1.2 Decisions

The major decisions only are summarized below:

1.2.1 Method of Regulation

The Board indicated during the hearing that it would hold a separate hearing, possibly later in 1983 or early 1984, to examine the method of regulating Westcoast's tolls. (Westcoast is currently under a variable cost of service set out in Board Order TG-5-79). Also to be considered at the subsequent hearing are various questions with respect to Order TG-5-79.

1.2.2 Grizzly Valley Pipeline

In December 1982, Westcoast applied to the Board for approval to treat the abandoned sections of the Grizzly Valley pipeline, with an original cost of \$6,800,000, as an extraordinary retirement. In January 1983, the Company applied for the inclusion in rate base of those costs of the replacement project which exceed or overrun 105 percent of the estimated costs. These overrun costs were said to amount to some \$1,069,000.

The Board requires that the cost of the abandoned pipeline of \$6,800,000 remain in rate base, on an interim basis. The Board also requires that those costs of the replacement project, that is, 105 percent of \$22,032,000, which are presently in Gas Plant in Service shall be removed from that account in the interim. The Company shall also remove the accumulated depreciation associated with this amount from Account 105. The Company shall, in the interim, record the full cost of the replacement project, \$24,203,000, less accumulated depreciation as of 31 August 1983, in a deferral account. The Company is authorized to calculate a cumulative carrying charge on the month-end balance of the deferral account at 1/12 of the annual rate of return on rate base authorized by this decision. Carrying charges shall be accrued in the deferral account. These interim provisions will be subject to section 52.2 of the NEB Act.

1.2.3 Capital Cost Overruns

The Board approves the following capital cost overruns as applied for by Westcoast:

Fort Nelson Sulphur Plant Additions -	\$8,556,830
Other cost overruns-	\$2,251,000

1.2.4 Vancouver Island Project - Preliminary Expenses

Westcoast is directed to transfer the Vancouver Island Project costs to two deferral accounts, one for hearing costs, the other for deferred preliminary survey costs. Commencing 1 September 1983, each account is to accumulate carrying charges calculated monthly at 1/12 of the annual rate of return on rate base authorized by the decision.

1.2.5 Investment Tax Credit

The Board approves the deduction from the rate base of the unamortized balance of the Investment Tax Credit and the amortization of this credit to the cost of service over a twenty-five year period, commencing 1 March 1983.

1.2.6 Operations and Maintenance

Westcoast's total 1982 actual O & M expenses were $61,217,000 which was $4,724,000 under the approved budget; however, certain cost centres overran budget by $1,810,000. The Board disallows $211,000 of salaries, wages and benefits relating to merit increases and approves an overrun recovery of $1,599,000.

Westcoast applied to the Board for a 1983 O & M Budget of $64,798,000 and the Board approves a budget of $64,701,000, an increase of 5.69 percent over the 1982 actual O & M expenditures.

1.2.7 Income Taxes

The Board requires that the allowance for income taxes to be included in Westcoast's cost of service effective 1 January 1983 shall be calculated on a flow-through basis. Westcoast had previously been providing for income taxes on a normalized basis. The deferred income taxes as at 31 December 1982 of approximately $54,795,000 shall be deducted in computing the rate base during 1983. The difference between the flow-through amount and that previously billed under the normalized method from 1 January 1983 together with carrying charges calculated at the prime rate of Westcoast's bankers shall be refunded or credited to the cost of service.

1.2.8 Rate of Return

Westcoast applied for a rate of return on rate base before taxes of 19.02 percent, which equates to 12.56 percent after taxes, in conjunction with a utility capital structure containing a 35 percent deemed common equity component.

The Board, in view of its decision on income taxes, approves a rate of return on rate base after taxes of 12.05 percent and retains the equity component of the capital structure at 35 percent. The change in the return on rate base is due to the following adjustments:

TABLE 1-1

Comparison of Rate of Return Components

	1980 Decision (%)	Westcoast Application (%)	Board Approval (%)
Balance of External Financing	13.92	12.97	10.00
Long-Term Debt	9.26	10.80	10.80
Preferred Shares	8.50	8.50	8.50
Common Equity	15.00	15.90	14.75
Rate of Return on Rate Base After Income Taxes	11.51	12.56	12.05
Normalized Income Taxes	6.39	6.46	
Rate of Return on Rate Base Before Income Taxes	17.90	19.02	

1.2.9 Cost of Service

Westcoast, in its application estimated its cost of service for 1983 to be $314,034,000 which would be an increase of 8.6 percent over its actual 1982 cost of service of $289,256,000. With the adjustments resulting from the Board's decision, the Board estimates Westcoast's cost of service for 1983 to be $279,028,000 or a reduction from 1982 of approximately 3.54 percent. A breakdown of these totals is provided in Table 1-2.

The reduction in Westcoast's 1983 estimated cost of service, resulting from this decision, is approximately $35,000,000. This is composed of approximately $29,600,000 resulting from the decision directing Westcoast to revert to flow-through income taxes; $3,300,000 resulting from the reduction to Westcoast's requested rate of return on rate base; and $2,100,000 resulting from the Board's decision to transfer the Grizzly Valley

TABLE 1-2

WESTCOAST'S ESTIMATED COST OF SERVICE FOR THE YEAR ENDING 31 DECEMBER 1983
($000)

		A	B	C	D	
		1982 Actual Cost	Westcoast Estimated 1983 Cost	NEB Adjustments	Adjusted Estimated 1983 Cost	% of D-A / A
Operating and Maintenance Exp.		61 217	64 798	(97)	64 701	5.69
Depreciation		45 256	47 998	48	48 046	6.16
Amortization		1 188	1 742	(1 064)	678	(42.93)
Taxes-Other than Income Taxes		47 039	54 131	-	54 131	15.08
Surtax on Income Taxes		-	1 485	-	1 485	N/A
Misc. Operating Revenue		(1 884)	(1 397)	-	(1 397)	25.85
Foreign Exchange on Debt		3 132	2 338	-	2 338	(25.35)
*ROR (AT) on Rate Base @	11.51%	85 719				
Normalized Income Taxes @	6.39%	47 589				
**ROR (BT) on Rate Base @	17.90%	133 308	-	-	-	-
*ROR (AT) on Rate Base @	12.56%		94 391			
Normalized Income Taxes @	6.46%		48 548			
**ROR (BT) on Rate Base @	19.02%		142 939	(142 939)	-	-
Return on Rate Base	12.05%			90 144		
Estimated Flow-Through Income Taxes(1)			-	18 902		
ROR on Rate Base + Flow-Through Income Taxes				109 046	109 046	(18.2)(2)
		289.256	314 034	(35 006)	279 028	(3.54)

(1) Calculated on a "Flow-Through" basis to reflect the Board's decision on income taxes in accordance with Order No. TG-5-79, as amended.

(2) $133 308 (ROR (BT) actual 1982) compared with $109 046 (ROR + Flow-Through Income Taxes for 1983).

* ROR (AT) = Rate of Return (After Taxes)

** ROR (BT) = Rate of Return (Before Taxes)

replacement pipeline costs to a deferral account. The resulting reduction in the cost of service from 1 January 1983 together with carrying charges calculated at the prime rate of Westcoast's bankers shall be refunded or credited to the cost of service.

1.2.10 Federal Restraint Program

The Board examined Westcoast's 1983 cost of service to determine the extent to which the increases are in compliance with the Federal Government's restraint program. After giving effect to the adjustments flowing from this decision, the Board finds that Westcoast is in compliance with respect to salaries, wages and benefits, and with respect to the 1983 O & M Budget approved by the Board which will increase by 5.69 percent over 1982 actual expenses. The Board also notes that all other increases in the components of the 1983 cost of service, with the exception of taxes other than income taxes, are in compliance with the restraint program.

The increase in taxes other than income taxes is mainly due to factors outside Westcoast's control. Principal among these is an estimated 18 percent increase in property taxes resulting from expected higher mill rates coupled with a larger utility plant. With respect to the higher mill rates, Westcoast indicated in its evidence that these higher rates could be expected as a result of reductions that had taken place in assessed values of most farms and residential properties in B.C. if government revenue requirements are to be maintained.

The reduction of the 1983 estimated cost of service compared to the 1982 actual cost of service is due primarily to the Board's decisions regarding income taxes, and the Grizzly Valley pipeline and Vancouver Island pipeline project cost deferrals.

CHAPTER 2

Application

2.1 Background

Westcoast is a natural gas transmission company that sells natural gas to distribution companies for delivery to residential, commercial and industrial customers in British Columbia and to a mainline gas pipeline company in the Pacific Northwest area of the United States. The Company's gas supplies come largely from fields in British Columbia supplemented by supplies from fields in Alberta and the Yukon and Northwest Territories. From the time it commenced operations in 1957 and until 1 November 1973, Westcoast purchased or produced and then sold the B.C. natural gas transmitted by it. Effective 1 November 1973, Westcoast entered into an agreement with the BCPC under which it assigned to the BCPC its contracts for the purchase of natural gas from producers in British Columbia. The BCPC, as part of this agreement, sells to Westcoast those volumes of gas required by the Company at a price equal to Westcoast's gross revenues allocated to the BCPC from the sale of the gas less the associated cost of service of Westcoast's utility operations. These operations, in addition to the usual gas transmission activities, include the operation of several gas processing and sulphur extraction plants.

Two previous major toll applications were heard by the Board. In September 1977, Westcoast applied to the Board for an order or orders under sections 50 and 53 of the NEB Act to give effect to the tolls which Westcoast proposed to charge for its transmission services.

The 1978 hearing with respect to this application dealt with depreciation and income taxes. In May 1978, the Board established the rates of depreciation to be used by Westcoast and required Westcoast to use the normalized method of accounting for corporate income taxes. This Decision was confirmed by the Board in November 1978.

This hearing continued in 1979 and the Board established that Westcoast's tolls would be of the variable cost of service type, calculated monthly in accordance with Order No. TG-5-79. This Order details the method of regulation, specifies the determination of the monthly cost of service and details the allocation of the monthly cost of service between the BCPC and the out-of-province natural gas producers. The Order also revised the previously established rates of depreciation applicable to the transmission plant. The effective date for the cost of service tolls was 1 November 1979.

In 1980, Westcoast applied for certain changes in the manner in which its tolls were calculated and for an increase in the before-tax rate of return on rate base. In November 1980, the Board, inter alia, varied Westcoast's before-tax rate of return on rate base and the basis of allocating items of income and expense between Westcoast's utility and non-utility operations for the purpose of determining the deferred income taxes to be deducted from rate base.

2.2 Current Application

In a letter dated 10 August 1982 (Appendix I), the Board advised Westcoast of its intention to examine at a public hearing Westcoast's 1983 O & M Budget submission, its 1982 Variance Report, and all other relevant matters relating to the Company's cost of service tolls.

In a submission dated 30 November 1982, Westcoast sought Board approval for its O & M Budget for the calendar year 1983. In a submission dated 25 February 1983, Westcoast sought Board approval for its 1982 Variance Report.

On 1 December 1982, Westcoast applied to the Board for an order, pursuant to section 17 and Part IV of the NEB Act, amending Board Order No. TG-5-79 by increasing the rate of return on rate base, before income taxes, from 17.90 percent to 18.97 percent. Westcoast further applied for

an interim order, pursuant to sections 16 and 17 and Part IV of the NEB Act, fixing interim tolls for or in respect of gas transported or sold by it from and after 1 January 1983. The application was amended on 4 March 1983 and again on 8 April 1983. The last amendment, among other things, increased the applied-for rate of return on rate base to 19.02 percent.

By Order No. TGI-2-82 dated 20 December 1982 (Appendix II), the Board ordered that, effective 1 January 1983, the tariff filed in accordance with Order No. TG-5-79, as amended, and the method of regulation prescribed in Order No. TG-5-79, as amended, should be an interim tariff and an interim method of regulation and should remain in effect only until such time as the Board issued its final order with respect to Westcoast's application of 1 December 1982.

By Board Order No. RH-1-83 dated 21 February 1983 (Appendix III), the Board set down for public hearing Westcoast's application, 1983 O & M Budget submission, 1982 Variance Report and the following additional matters:

- Westcoast's request dated 4 December 1981 for an Order permitting the inclusion in the Company's cost of service of the costs incurred on account of the 5 percent corporate surtax;
- Westcoast's application dated 25 June 1982 for an Order permitting the inclusion of the Fort Nelson Sulphur Plant cost overruns in average monthly rate base;
- Westcoast's application dated 15 December 1982 for an Order permitting the inclusion in the Company's rate base of certain amounts respecting the Grizzly Valley Pipeline charged to Account 171 - Extraordinary Plant Losses;
- Westcoast's application dated 27 January 1983 for an Order permitting the inclu- sion of cost overruns of $3,586,000 in average monthly rate base;
- The appropriateness of the procedures established by Board Order No. TG-5-79, as amended, respecting rate base additions;
- The appropriate treatment of income taxes (normalized vs flow-through); and,
- Compliance with the Federal Government's restraint program.

The Board noted in the Hearing Order that the identification of the matters on which the Board wished to hear evidence did not preclude parties from raising other relevant issues.

The following additional matters were raised by intervenors:

- The method of regulation of Westcoast;
- The appropriate treatment of all costs associated with the Grizzly Valley Pipeline replacement project; and
- The methodology for calculating cash working capital.

In a letter dated 6 April 1983 (Appendix IV), the Board also advised Westcoast that it intended to examine the appropriateness of the continuation in rate base of the costs associated with Vancouver Island - Preliminary Surveys and Investigations.

CHAPTER 3

Method of Regulation

Westcoast is currently on a cost of service toll as required under Board Order No. TG-5-79. Under this method of regulation, Westcoast is authorized to recover its actual cost of service in accordance with Board directives.

The CPA tendered evidence which challenged the present method of regulation and advocated a change to the fixed-toll method. Under this method, Westcoast's total cost of service for a prospective test year would be determined on the basis of forecast volumes and distances and fixed tolls would be established on a volume/distance basis. These tolls would recover the approved cost of service from actual throughput.

Westcoast objected to the introduction of the method of regulation as an issue in the proceedings on the grounds that the issue had not been included in the hearing order. Westcoast expressed the view that if it had been aware that the method of regulation was to be an issue in the hearing, the Company would have filed a significantly different case from the one actually filed and submitted that a substantial delay would result if the Board were to deal with the matter during the current hearing. On 20 April 1983, the Board announced that it would examine the method of regulation; however, because of the prejudice to Westcoast that might result from dealing with the issue in the present hearing, the Board deferred the matter to a separate proceeding. A hearing order will be issued in due course which will give all parties an opportunity to present their views on this issue.

Recognizing that one possible outcome of the proposed hearing could be a continuation of the cost of service method of regulation, the Board has also decided to defer to that hearing several questions raised during this hearing with respect to Order No. TG-5-79, as amended. These include the cost centre approach to handling operating and maintenance budget overruns and contingencies; the treatment of by-product revenues, fuel costs, and the valuation of line pack; and the clarification of paragraph 9 of Schedule A to the Order respecting emergency actions. The Board, in light of its overall concern with respect to the control of pipeline construction costs, also defers to that proceeding its consideration of the appropriateness of the procedures established by Order No. TG-5-79, as amended, regarding rate base additions.

Finally, due to the Board's concern with TG-5-79 procedures which cause delays in the approval of Westcoast's annual O & M Budgets, the Board will also include a review of those procedures in the method of regulation hearing.

CHAPTER 4

Rate Base

4.1 Grizzly Valley Pipeline

The Grizzly Valley Pipeline failed while in sour gas service on 20 July 1981. This failure was followed by a second break on 27 July 1981. The pipeline was repaired but the Board denied the Company authority to operate the line in normal sour gas service. As a result, the Company applied and was authorized to replace that portion of the line which was found to be unsuitable for normal sour gas service. The portion which has been replaced and which is now abandoned had, according to the Company, an original cost of $6,800,000.

On 15 December 1982, the Company applied for authorization to treat the costs of the abandoned line as an extraordinary retirement. The Company's proposal with respect to these costs is as follows:

1. Credit Account 100, Gas Plant in Service, with the original cost of approximately $6,800,000.
2. Debit Account 105, Accumulated Depreciation, Gas Plant, with the accumulated depreciation of $1,400,000 recorded to the time of retirement.
3. Charge the balancing debit of $5,400,000 to Account 171, Extraordinary Plant Losses.
4. Starting January 1983, amortize the amount charged to Account 171 to cost of service Account 304 over a period of 60 months in equal monthly amounts.
5. Credit Account 171 with amounts for salvage received on the sale of line pipe plus any amounts for line pipe taken into operating inventory within established inventory guidelines, less removal costs, with the amortization amount reduced accordingly.

The Company also sought authority to include in rate base the amounts charged to Account 171. Amounts charged to Account 171 are not automatically included in rate base.

At the time approval was given for the replacement project, Westcoast estimated the cost to be $22,032,000. The projected final cost is said to be $24,203,000. The replacement line was opened for sour gas service in late 1982 and 105 percent of the estimated cost of $22,032,000 is, as a result, included in rate base pursuant to the provisions of Order No. TG-5-79, as amended. On 27 January 1983, the Company applied for the inclusion in rate base of those costs of the replacement project which exceed or overrun 105 percent of the estimated costs. These overrun costs are said to amount to some $1,069,000.

The Company had considered pursuing an action against its insurers to recover the costs of the replacement project but discontinued this action on the advice of its solicitors. It appears that this loss is excluded from the Company's insurance coverage.

The Company has commenced action in the Supreme Court of British Columbia against certain companies which it claims are responsible for the costs of the replacement project. The damages claimed are based on the estimated replacement cost of $22,032,000. The Company is also claiming pre-judgement interest.

On 22 April 1983, counsel for the BCPC presented a motion with respect to the costs associated with the Grizzly Valley pipeline. It was the BCPC's position that these costs should be dealt with on an interim basis only, pending the outcome of the court action. The Board decided on 22 April 1983 that it would not finally determine the issues related to the Grizzly Valley pipeline but would consider and decide the appropriate treatment to be accorded the costs of the original project and the costs of the

replacement project pending the resolution of the litigation. The Board invited comments from all parties with respect to the appropriate treatment of these costs in the interim. In addition, the Board stated its intention to dispose of the overrun application although the treatment of such costs as might be allowed would be subject to the treatment decided by the Board for the costs of the replacement project as a whole.

Following further submissions by parties, the Board, on 2 May 1983, confirmed its decision of 22 April 1983. The background and reasons for the decision were presented in full at that time and an extract of the relevant portion of the transcript is provided in Appendix V.

Upon confirmation of its decision by the Board, the Company, in order to prepare its case, sought clarification with respect to the various alternatives which might be considered. This clarification was given later on 2 May 1983. Although it had indicated its intention to call evidence on this matter, the Company decided that it would deal with the matter entirely in final argument.

In its final argument of 31 May 1983, the Company submitted that, in light of the Board's decision of 22 April 1983, the appropriate treatment of the costs associated with the Grizzly Valley pipeline should be as follows:

1. The costs of the replacement project which are presently in rate base should remain in rate base for the interim, subject to refund, pending a final order.

2. The overrun costs should be approved and added to rate base for the interim, subject to refund, pending a final order.

3. The extraordinary retirement of the abandoned line should be dealt with in accordance with the proposal set out in the Company's application of 15 December 1982.

This would give the Company full rate base treatment, in the interim, for the costs of the replacement project while removing from rate base the costs of the original pipeline which has been replaced. The Company's proposal was supported by COFI.

The BCPC submitted in its final argument that the costs, less accumulated depreciation, of the original pipeline which had been replaced should be given interim rate base treatment. The BCPC also submitted that the costs of the replacement project should not be accorded full rate base treatment in the interim. Instead, Westcoast should, subject to refund, recover the carrying cost of that portion of the costs of the replacement project financed by debt but should not recover in the interim the cost of that portion of the costs of the replacement project financed by equity. However, Westcoast would, subject to refund, be permitted to claim depreciation expense.

Decision

As noted above, the decision the Board must make relates only to the appropriate treatment, on an interim basis, of the costs of that portion of the original Grizzly Valley pipeline which has been replaced, and the costs of the replacement project, pending the resolution of litigation commenced by the Company in the British Columbia Supreme Court. This matter is before the Board as a result of its decision of 22 April 1983 as confirmed on 2 May 1983. On 2 May 1983, the Board stated that an interim order should strike a balance between the interests of Westcoast, as the party having made the investment, and the interests of other parties who may be concerned that a final order would put these costs beyond reach should the outcome of the litigation warrant an adjustment at that time. The Board also stated that it would have due regard to its own policies and its Uniform Accounting Regulations.

The Board has considered the interests of all parties, its own policies and its Uniform Accounting Regulations and finds that the circumstances of this case are unique. The Board also considers that these circumstances were not contemplated when Order No. TG-5-79 was issued. The appropriate treatment of these costs must, therefore, be decided on the basis of the circumstances of the case as they appear to the Board. The Board notes that paragraph 5(b) of the Gas Pipeline Uniform Accounting Regulations permit the Board to authorize the keeping of accounts otherwise than as provided in the Regulations.

The essence of the Company's action in the British Columbia Supreme Court is that, as a result of circumstances for which the defendants to the action are responsible, the Company has been required to replace a portion of pipeline which it states had an original cost of $6,800,000. The Company seeks the recovery of the replacement costs plus pre-judgement interest. If the Company is successful in the action, there would be no question of placing the costs of the replacement project in rate base since the Company would have recovered these costs in the action.

The Board has decided that the costs of the replacement project should not be in rate base in the interim but should instead be placed in a deferral account. As a result, the Board does not consider it appropriate to authorize the Company to treat the costs of the abandoned line as an extraordinary retirement in the interim. Given the position taken by the Company in its court action, the original costs of the abandoned line may be said to reflect the costs of the pipeline which should be reflected in the Company's cost of service in the interim.

There was some cross-examination with respect to whether certain costs, such as the costs of metallurgical investigations, which the Company attributed to the replacement project would be more appropriately accounted for in connection with the costs of the original line. If these costs were re-allocated, it would result in an increase in the $6,800,000 which the Company says is the cost of the original line and a corresponding decrease in the $24,203,000 projected final cost of the replacement project. In addition, the adjustment would dispose of the cost overrun on the replacement project. However, since these costs were incurred as a result of the failure of the original line and would, therefore, properly form part of the Company's claim in its action, the Board has decided to accept, on an interim basis, the amounts of $24,203,000 and $6,800,000 as the costs of the replacement project and the original line respectively.

The costs of the original line, $6,800,000, shall remain in rate base in the interim.

Those costs of the replacement project, that is, 105 percent of $22,032,000, which are presently in Gas Plant in Service shall be removed from that account in the interim. The Company shall also remove the accumulated depreciation associated with this amount from Account 105. The Company shall, in the interim, record the full cost of the replacement project, $24,203,000, less accumulated depreciation as of 31 August 1983, in a deferral account. The Company is authorized to calculate a cumulative carrying charge on the month-end balance of the deferral account at 1/12 of the annual rate of return on rate base authorized by this decision. The Board's treatment of carrying charges in this manner is similar to its treatment of allowance for funds used during construction (AFUDC) and will not, in the Board's opinion, impair the financial integrity of the Company. The Company has adequate sources of internal financing to carry these costs in the interim. The Board does not consider depreciation appropriate in the interim since the amount is to be placed in a deferral account and since the Company is claiming the full cost of the replacement project in the action.

These interim provisions shall apply, pending the resolution of the litigation - whether by settlement, judgement, or otherwise - or until 31 December 1985 whichever is the earlier. In the event that the litigation is not resolved by 31 December 1985, the Board will determine whether or not the interim provisions should be extended. Westcoast is requested to keep the Board advised of the progress of the litigation and to continue to make available in its library a complete copy of the pleadings, orders, transcripts, and other documents associated with the action for inspection by the Board and interested parties. Since this matter arose subsequent to the making of Order No. TGI-2-82, these interim provisions shall come into effect on 1 September 1983 and will be subject to section 52.2 of the NEB Act.

4.2 Cost Overrun Applications

On 27 January 1983, Westcoast applied pursuant to paragraph 16 of Schedule A to Board Order No. TG-5-79 for the inclusion in rate base of the amounts by which various projects exceeded 105 percent of their estimated costs. The application involved eight projects with total overruns of $3,586,000.

4.2.1 The Grizzly Pipeline Replacement Project

The overrun for the Grizzly Pipeline replacement project is dealt with in section 4.1 above.

4.2.2 Line Break Near Taylor

In 1982, the Board approved a project to repair a line break near the town of Taylor, British Columbia at an estimated cost of $100,000. Westcoast's projected actual costs for the repair are $382,000. The Company calculated a cost overrun of $266,000 and applied for Board approval to include this amount in rate base.

The major component of the projected cost was the capitalized cost, estimated at $284,000, of gas lost and blown down as a result of the break. The Company confirmed that the gas lost was wholly a result of the break. The Company's practice has been to capitalize the cost of gas loss arising from those breaks which result in a capital repair project.

The Board considers that the gas loss resulting from a line break during operation of the pipeline is an operating expense. Therefore, the Company is directed to charge the amount of $284,000 to operating expense. Westcoast's 1983 O&M Budget has been increased accordingly. (Refer to section 5.2.3).

As a result, the projected cost for this project becomes $98,000, and there is, therefore, no cost overrun.

Decision

The Board directs Westcoast to charge $284,000 to operating expenses. The Company is directed, effective 1 January 1983, to remove from Gas Plant in Service the difference between $98,000 and the amount presently in that account with respect to this project; to adjust its accounts accordingly; and to credit the cost of service for September 1983 with the appropriate adjustment. The Board also directs Westcoast to expense any future gas loss resulting from line breaks which occur during operations.

4.2.3 Other Overruns

No concerns were raised relating to the other six projects included in the overrun application with total overruns of $2,251,000. The Board accepts these overruns as having been reasonably incurred.

Decision

The Board authorizes additions to rate base totalling $2,251,000, effective 1 January 1983.

4.3 Fort Nelson Sulphur Plant Additions

On 22 June 1979, Board Certificate GC-61 was issued which, inter alia, authorized an expansion of the Fort Nelson Sulphur Plant. This expansion was required to meet forecast throughput increases and to increase the plant's sulphur recovery efficiency from 85 to 95 percent. The capacity of the plant was to be increased from 414 tonnes to 555 tonnes per day of sulphur at an estimated cost of $2,255,000.

On 2 January 1980, Westcoast applied to increase the design throughput by a further 97 tonnes to 652 tonnes per day of sulphur. The project, as amended, was estimated to cost $5,100,000 and this estimate was increased on 26 November 1980 to $12,619,000. On 2 July 1981, Board Certificate AO-1-GC-61 was issued approving the amended project.

Three other related improvements to the Fort Nelson Sulphur Plant were included by the Company in Class "C" applications dated 5 March 1981 and 7 October 1981. The improvements included in the first application, an acid gas injection system and a standby air blower, were authorized by Board Order XGM-7-81, dated 22 May 1981. The third improvement, modification to a reaction furnace, was included in the second application and was approved by Board Order XGM-14-81, dated 25 November 1981. The cost for these projects, excluding the ten percent overrun allowance, was estimated to be $2,075,000.

In an application dated 25 June 1982, Westcoast applied for the following:

PART A

to relieve the Company of the requirement to submit separate cost overrun applications for each individual project and to permit the Company, where several projects had been combined for management purposes, to submit a single overrun application; and

PART B

approval to include in its average monthly rate base an amount of $9,911,300, being the difference between the projected costs of $25,340,000 for the Fort Nelson Sulphur Plant project and the three Class "C" projects and 105 percent of their approved costs of $14,694,000.

In a letter dated 12 November 1982, the Company submitted a breakdown of the projected costs for the respective projects. This breakdown, as well as the costs approved by the Board, are summarized as follows:

TABLE 4-1

Project	Cost Projected by WTCL in 1982	105 Percent of the Cost Approved by the Board in 1981	WTCL Application for rate base addition
Fort Nelson Sulphur Plant Expansion (original)	$23,057,000	$13,249,950	$9,807,050
(revised)*	21,806,780	13,249,950	8,556,830
Air Blower	1,133,000	1,081,500	51,500
Acid Gas Injection System	875,000	834,750	40,250
Furnace Burner	275,000	262,500	12,500

* WTCL revised its projected cost downward by $1,250,220 to $21,806,780 in a submission dated 22 March 1983.

On 23 November 1982, the Board denied PART A of the Company's application. The Board also stated its intention to examine PART B of the application during this hearing. However, on an interim basis, the Board authorized the rate base additions applied for by the Company of $9,807,050, $51,500 and $40,250 for the Fort Nelson Sulphur Plant Expansion, Air Blower and Acid Gas Injection System projects respectively. The Board found that no such approval was necessary for the Furnace Burner project as the difference between Westcoast's 1982 cost estimate and the cost approved by the Board did not exceed $25,000.

With respect to each of the Class "C" projects, the Board notes that the projected costs do not exceed the approved costs including a 10 percent overrun allowance. The Board therefore confirms its decision of 23 November 1982 relating to the Class "C" projects and authorizes Westcoast to include in its rate base the amounts of $51,500 and $40,250 for the Air Blower and Acid Gas Injection System projects respectively.

The Company stressed during the hearing that the cost overruns for the Fort Nelson Sulphur Plant expansion were due to the original cost estimates being developed on a factored cost basis and prepared by an engineering contractor who seriously underestimated the complexity of the job. In defense of the original cost estimates, Westcoast noted that the scheduled in-service date for the facilities had slipped from 1980 to 1982, with some work still to be completed in 1983. On the subject of the factored method of cost estimating, Westcoast advised that definitive estimating, such as that required for Fort Nelson, could have added some eighteen months and two to three million dollars to the cost of a project. Nevertheless, the Company indicated that it is considering definitive cost estimating procedures for future sulphur plant applications.

The CPA/IPAC suggested that if the final design costs exceeded 105 percent of the originally approved costs then further Board approval should be required prior to construction. The Company indicated that there might be some merit in a two-stage approval process but suggested that a decision on this matter be postponed until the completion of a current study by the Pipeline Task Force on the subject of pipeline construction costs.

The Board is concerned about the frequent inaccuracy of factored . cost estimates submitted not only by Westcoast but by other pipeline companies under its jurisdiction. The Board will consider whether the merits of alternative cost-estimating procedures should be examined during the hearing into the method of regulation.

Evidence was given during the hearing to demonstrate that Westcoast had adequate procedures for monitoring and controlling the costs for its engineering and

construction contractors. Largely as a result of its dissatisfaction with the contractor's Fort Nelson Sulphur Plant cost estimates, Westcoast indicated that consideration had been given to severing relations with that engineering contractor. However, at the time of the design of the original plant, Westcoast had entered into secrecy agreements with the engineering contractor covering the essential elements of the sulphur plant process. The Company stated that these agreements legally bound it to that contractor for the expansion project.

Analysis of the overrun of \$8,556,830 indicates that \$8,156,830 of these costs were applicable to the categories of Materials and Installation, Engineering Services and WTCL Direct Costs. The category of Major Equipment did not have a significant impact on the cost escalation. The fact that all labour related cost categories were underestimated while the major equipment cost category was accurate suggests that the engineering contractor did indeed underestimate the complexity of the job.

Regarding the balance of the overrun, \$400,000, Westcoast stated that between November 1980 and June 1981, the engineering contractor was hired to work exclusively on the design of the Air Blower project. Westcoast made an application for this project in March 1981 and received Board approval in May 1981.

However, upon approval of AO-1-GC-61 in July of 1981, the Air Blower project had to be redesigned to conform with the expansion facilities. The design of the Air Blower project was originally undertaken on a basis separate from the design of the plant expansion because the air blower was intended to improve reliability whether or not the expansion facilities were approved by the Board.

The Company estimated that the extra cost of designing the air blower as a separate project and then designing it again as part of the expansion facilities was \$400,000 and this is included in the \$8,556,830 overrun amount.

The Board appreciates that the circumstances prevailing at the time the decisions respecting the air blower were taken were unusual. Westcoast was experiencing difficulties with its engineering contractor and at the same time was being urged by the B.C. Government to take appropriate measures, including early installation of the air blower, to safeguard the environment. Since the engineering contractor was not called as a witness to explain its view of the situation, the Board accepts the assertions of Westcoast management respecting the difficulties faced and the prudency of their decision.

The Board approves the inclusion of the \$400,000 in rate base.

<u>Decision</u>

The Board approves, for inclusion in rate base, the amounts of \$51,500 and \$40,250 for the two Class "C" projects, the Air Blower and Acid Gas Injection System respectively, and the additional amount of \$8,556,830 (which includes the \$400,000 referred to above) for the Fort Nelson Sulphur Plant Expansion Project. The additional amounts included in Westcoast's Cost of Service as a result of the difference between the Board's interim decision of 23 November 1982 and this decision shall be credited to the September 1983 Cost of Service. The Company shall also make the appropriate adjustments to its accounts.

The Board will consider whether the merits of alternative cost-estimating procedures should be examined during the hearing into the method of regulation.

4.4 <u>W-92 Turbine Units Retirement</u>

In 1979, Westcoast had a total of 16 Westinghouse W-92 gas turbine units in operation along its pipeline system. As a result of numerous operating problems then being experienced, the Company proposed to replace all these units.

Between 1979 and 1981, the Board approved the replacement of a total of six W-92 turbine units with more reliable and fuel efficient Spey units. Since the W-92 turbine units required a great deal of maintenance, were no longer manufactured, and spare parts were expensive and difficult to obtain, Westcoast decided to retain certain of the salvaged spare parts and transfer them to Materials and Supplies Inventory. The basis of the selection was the usefulness of the part or

the inventory level. Westcoast recorded the parts salvaged from retirement of the first five W-92 turbine units in inventory at their original cost. Westcoast supported this action by noting that the salvaged spare parts would reduce the immediate need for new spare parts, and that $1,157,940 of the $2,328,184 of spare parts salvaged from retirements had already been utilized. However, when the unit at Station 2B was retired, the Company included its spare parts in inventory at no value.

On 1 March 1983, Westcoast requested approval of its proposed accounting treatment for an additional W-92 turbine unit retirement. The Board, in its letter of 18 March 1983, advised Westcoast that it would consider this request at the present hearing.

During the hearing, evidence was adduced that parts with an original cost of approximately $600,000 had been salvaged from the retirement and transferred into inventory at no value. Also, no more W-92 turbine units will be replaced until the load on the system and the operating hours on the remaining ten units increase.

Decision

The Board approves, effective 1 January 1983, Westcoast's proposed accounting treatment for the retirement of the W-92 turbine unit at Compressor Station 2B. All spare parts salvaged from this retirement are to be included in inventory at no value.

4.5 Vancouver Island Project - Preliminary Expenses

The Board, in its November 1980 Reasons for Decision, approved the inclusion of Vancouver Island Project expenses in rate base, under the category of Preliminary Surveys and Investigations. These expenses amounting to $25,000 related to a proposed expansion of Westcoast's pipeline system in order to deliver gas to the main centres on Vancouver Island. As at 31 December 1982 the balance had increased to $1,259,000.

The Board advised all parties that it intended to examine at this hearing the appropriateness of continuing to include the costs associated with the Vancouver Island Project in rate base.

Westcoast forecast additions of $1,108,000 to the Vancouver Island Project (Preliminary Surveys and Investigations) in the test year. These costs are related to preliminary engineering studies, facilities applications and regulatory hearings. Of this amount, Westcoast identified $1,000,000 as the estimated costs for hearings.

Westcoast stated that costs incurred in studying potential markets are properly costs of conducting its utility business. However, since the approved rate of return does not include any provision for the risks associated with such studies, Westcoast contended that the costs of these studies should be included in rate base. In the current case, Westcoast stated that it was not the amount that was the important issue; rather, it was the principle involved, i.e., that the Board had accepted this as a utility function in 1980 and, therefore, should continue to do so.

Some intervenors stated that, since the spending by Westcoast consists of pre-approval expenses only, it is the type of entrepreneurial risk and expense that should be borne by the shareholders. They added that if the application is successful, these costs become part of the cost of the project, and may be recovered by Westcoast. They also pointed out that out-of-province producers would derive no benefit, and thus should not bear any of the costs associated with this project.

The Board is concerned about the magnitude of these preliminary costs and shares the view of some intervenors that these costs represent pre-approval expenses. There is no assurance at this time that Westcoast will be the successful applicant.

Traditionally, the Board has denied rate base treatment for hearing costs; however, it has allowed recovery of such charges in the cost of service.

Decision

The Board directs that Vancouver Island Project expenses be removed from rate base and be deferred. Since hearing costs will require special treatment, they are to be segregated from other costs of the Vancouver Island Project. This segregation is to be accomplished by setting up two deferral accounts as follows:

(a) Deferred Hearing Costs

Westcoast is to transfer all hearing costs charged to Preliminary Surveys and Investigations up to 31 August 1983 to a deferral account, and to record therein all hearing costs incurred after that date.

(b) Deferred Preliminary Survey Costs

Westcoast is to transfer all non-hearing costs charged to Preliminary Surveys and Investigations up to 31 August 1983 to a separate deferral account, and to record therein all non-hearing costs incurred after that date.

Commencing 1 September 1983, each account is to accumulate carrying charges calculated monthly at 1/12 of the annual rate of return on rate base authorized by this Decision.

4.6 Investment Tax Credit

Westcoast applied for approval to reduce its rate base by $6,848,000 for the Investment Tax Credit and to amortize this amount to the cost of service over a twenty-five year period. Westcoast stated that this tax credit, which reduced income taxes paid in February 1983, is related to qualified investments for gathering lines and sulphur plant. It is the Company's position that this credit is a government grant that reduces the carrying value of the related assets.

Decision

The Board approves the deduction from the rate base of the unamortized balance of the Investment Tax Credit and the amortization of this credit to the cost of service over a twenty-five year period, commencing 1 March 1983.

4.7 Materials and Supplies

No evidence was adduced during the Hearing to suggest that the materials and supplies levels were unduly high. In 1982, the Board instituted the practice of examining Westcoast's materials and supplies levels at selected warehouses and will continue this practice in the future.

During the hearing Westcoast explained its procedures for accounting for materials and supplies which become surplus to both construction projects for which they were purchased and inventory requirements. Westcoast stated that it charges the costs for the surplus materials to the specific construction project even though the materials are physically placed into inventory at no cost. Thus the costs for the surplus materials remain in the appropriate Gas Plant in Service account and the average unit cost of the material in inventory decreases.

The Board is not persuaded that it is appropriate to include surplus construction materials in inventory when these materials are in excess of inventory requirements. However, before the Board makes a decision on this matter it wishes to review fully Westcoast's materials and supplies inventory procedures. The Board will conduct this review as part of future examinations of materials and supplies levels of Westcoast's warehouses.

Decision

The Board accepts, for the time being, Westcoast's inventory procedures but will examine these procedures on an ongoing basis.

4.8 Deferred Income Taxes

4.8.1 Deferred Income Tax Balance Calculations

The Board's 1978 Reasons for Decision directed Westcoast to calculate income taxes in its cost of service toll on the normalized basis and to deduct from the rate base each month the balance of the accumulated deferred income taxes. The Company at that time requested a lag in the deduction of the deferred tax balance equal to the lag between the inclusion of normalized income taxes in the toll and the receipt of those revenues. The Board determined that a lag of one month was appropriate and, accordingly, Westcoast was required to deduct the previous month's deferred income tax balance from the current month's rate base calculation.

During the hearing, a witness for the BCPC asserted that Westcoast has been

claiming a 1 1/2 month lag in this deduction by computing the average deferred income tax balance for the previous month and deducting this amount from rate base. It is the Board's opinion that Westcoast, by deducting the average accumulated deferred income tax balance for the previous month from the current month's average monthly rate base, has been complying with the requirement of a one month lag in calculating its monthly cost of service toll. The Board, therefore, confirms the method used by Westcoast to calculate the deduction from rate base of the balance of the accumulated deferred income taxes.

Decision

The Board confirms the method Westcoast has been using to calculate the deduction from rate base of the balance of the accumulated deferred income taxes. For the disposition of the deferred income tax balance, effective 1 January 1983, see section 4.8.3.

4.8.2 Equity Component of AFUDC as a Permanent Difference

In its application, Westcoast adjusted its 1983 depreciation to remove the annual amortization of equity AFUDC in the amount of $566,000 from the 1983 timing differences. This same amount was then included in the 1983 permanent differences for the purpose of calculating the income tax return component of the rate of return on rate base before income taxes.

In its direct evidence the BCPC submitted that the equity portion of interest during construction (IDC) is not a permanent difference in accordance with item 5, Appendix VI of the Board's September 1979 Reasons for Decision. The intervenor also claimed that the Board erred in not removing the "Annual Amortization of Equity Portion of IDC", which is also not a permanent difference, in the above-noted Decision. The BCPC maintained that the inclusion of the annual amortization of equity AFUDC as a permanent difference overstated the applied-for income tax return component.

Westcoast submitted that equity AFUDC represents an addition to rate base but is not included in capital cost allowance classes since equity AFUDC is not recognized for tax purposes. Consequently, equity AFUDC is a permanent difference.

Westcoast's evidence also indicated that equity AFUDC that is added to rate base in the year is recognized as a permanent difference over time through the mechanism of annual depreciation. As a result, the annual amortization of equity AFUDC should be excluded from the annual depreciation for the purpose of calculating the year's timing differences, and then included in the permanent differences for that year.

Decision

The Board approves Westcoast's treatment of the annual amortization of equity AFUDC, which treatment is in accordance with the Board's September 1979 Reasons for Decision. For the disposition of the deferred income tax balance, effective 1 January 1983, see section 4.8.3.

4.8.3 Disposition of the Deferred Income Tax Balance

As a result of the Board's decision to return Westcoast to the flow-through method of calculating its income tax allowance, no current deferred income tax will be included in its tolls effective 1 January 1983.

Decision

The Board has decided that the balance of deferred income taxes of approximately $54,795,000 as at 31 December 1982, shall be deducted in computing the rate base during the test period. There shall be no drawdown of previously accumulated deferred income taxes at this time. Should crossover occur, the Company shall apply to the Board for the disposition of this balance.

The Board has also decided that Westcoast shall recalculate its income tax allowance on a flow-through basis commencing 1 January 1983. The difference between the flow-through amount and that previously billed under the normalized method, from 1 January 1983, together with carrying charges calculated at the prime rate of Westcoast's bankers shall, at Westcoast's option, be credited to the cost of service for

September, October, November, and December 1983 or be refunded or credited to the cost of service for September 1983.

4.9 Calculation of Allowance for Cash Working Capital

In its November 1980 Reasons for Decision, the Board required Westcoast to calculate an allowance for cash working capital at 1.3 times the O & M expenses included in the cost of service for the month less charges for transportation by others. This is equivalent to an average operating expense lag of 39 days (39 days divided by 30 days equals 1.3).

B.C. Hydro submitted that the lead/lag study provided by Westcoast during the 1980 toll hearing was conceptually incorrect since it failed to recognize interest payments on long-term debt and preferred share dividends in the study. The intervenor submitted, in evidence, a lead/lag study which reduced the lag time by more than 49 days thus producing a negative cash working capital allowance.

It is the Board's opinion that the purpose of an allowance for cash working capital is to compensate shareholders for funds which they are required to provide for the company's day-to-day utility operations. The funds required for the payment of interest on long-term debt and preferred share dividends are normally considered to be part of the financial arrangements of a company and not part of cash working capital.

Decision

The Board confirms the continuation of the method of calculating the cash working capital allowance approved in its 1980 Reasons for Decision. The Board, however, will require Westcoast to file, as part of its next Part IV toll application, a lead/lag study which includes details of long-term debt interest payments and preferred share dividends.

4.10 Additions to Westcoast's Rate Base Pursuant to Order No. TG-5-79, as Amended

Paragraph 1(d) of Schedule B to Order No. TG-5-79, as amended, provides limits on the amounts which can automatically be included in the calculation of the average monthly rate base for projects approved by the Board under sections 44 and 49 of the NEB Act. In Board Order No. RH-1-83, the Board stated its intention to examine the appropriateness of the procedures established by Order No. TG-5-79, as amended, respecting rate base additions. However, in light of its decision to hold a hearing into Westcoast's method of regulation, the Board has decided that this issue would best be resolved at that time.

Decision

The appropriateness of Paragraph 1(d) of Schedule B to Order No. TG-5-79, as amended, will be examined at the forthcoming hearing into Westcoast's method of regulation.

CHAPTER 5

Operating and Maintenance Expenses

5.1 1982 Budget Variance Report

5.1.1 Introduction

Westcoast's approved O & M budgets for the year ended 31 December 1982 were $31,671,000 for Salaries, Wages and Benefits, $33,029,000 for Other Expenses and $1,241,000 for Contingencies. The 1982 Variance Report filed on 25 February 1983 reported actual expenses of $29,630,000, $31,119,000 and $468,000 respectively. Although the total actual expenses of $61,217,000 were $4,724,000 under the budget approved by the Board, certain cost centres overran budget by $1,810,000 (see Table 5.1) and Westcoast requested Board approval to recover this amount in accordance with Order No. TG-5-79, as amended.

TABLE 5.1

WESTCOAST'S 1982 O & M BUDGET OVERRUN APPLICATION ($000)

Cost Centre	Salaries, Wages and Benefits	Other Expenses	Contingencies	Total
Northern District	-	280	96	376
Southern District	-	123	76	199
Fort Nelson Plant	-	-	-	-
McMahon Plant	-	-	-	-
Taylor Sulphur Plant	115	152	-	267
Pine River Plant	41	-	-	41
Other Cost Centres	-	17	-	17
Vancouver Departments	910	-	-	910
General Administrative	-	-	-	-
Total	1 066	572	172	1 810

5.1.2 Salaries, Wages and Benefits

In its 1982 Variance Report, Westcoast reported overruns in Salaries, Wages and Benefits for three cost centres: the Taylor Sulphur Plant, the Pine River Plant and the Vancouver Departments. Westcoast was under the budget approved by the Board for Salaries, Wages and Benefits for the other cost centres.

The overruns had three major sources: merit increases that were granted by Westcoast but not included in the 1982 budget approved by the Board, increases in the person-year utilization and decreases in the allocation of Salaries, Wages and Benefits to capital, Foothills and other non-utility operations.

In the discussions of Salaries, Wages and Benefits the following definitions apply:

Person-year means the employment of one person for one full year or the equivalent thereof, for example, two people each employed for one half of a year. "Average annual complement" as used by Westcoast will be interpreted as equivalent to person-years utilized and in this decision will be identified as "Person-Year Utilization".

Complement means the total number of budgeted positions and so is an upper limit on the number of person-years.

Strength refers to continuing full-time employees and is measured by a count of such employees on the paylists dated nearest to the time strength is being measured.

For further clarification, complement refers to positions which may be either filled or vacant while both strength and person-year utilization refer to occupied positions. Strength refers to positions occupied at a particular point in time and person-year utilization refers to an average number of positions filled over the course of a year.

(i) Merit Increases

The Board, in approving Westcoast's 1982 O & M Budget in July 1982, allowed a 13.5 percent general salary and wage increase but disallowed the requested merit allowance of 2.75 percent for salaried employees. Notwithstanding the Board's decision, Westcoast granted merit increases for the balance of

1982 to selected employees whose performance was deemed to be meritorious. This resulted in "Pay for Performance" increases for 1982 of 2.17 percent. Under questioning by Board Counsel, the Company stated that since half of the year had elapsed before it received the Board's decision, and since it had already granted a number of increases under the "Pay for Performance Plan", it would have been unfair to treat employees differently whose review fell into the latter half of the year.

In light of major wage settlements made in the first quarter of 1982, the Board still finds the amount of the merit increase to be excessive.

Decision

The Board disallows $211,000 related to merit increases of which $198,000 relates to the Vancouver Departments.

(ii) Person-Year Utilization

The 1981 O & M Budget approved by the Board was based on a utilization of 867 person-years while Westcoast's actual utilization was 825 person-years. In its 1982 O & M Budget application Westcoast included 910 person-years which was an increase of 43 person-years over the utilization included in the 1981 approved budget and 85 over the actual 1981 utilization.

Since Westcoast experienced no difficulties in meeting its operating requirements in 1981, the Board, in approving the 1982 budget, disallowed the inclusion of costs associated with the additional 43 person-years requested by Westcoast. Furthermore the Board reduced the person-years of the Taylor Sulphur Plant by one, as proposed by Westcoast. As a result, the 1982 approved budget for Salaries, Wages and Benefits was based on a utilization of 866 person-years, i.e. the 1981 approved utilization less one.

Westcoast's actual person-year utilization for 1982 was 870 which exceeded the utilization in the 1982 budget by 4. The Company attributed these additional person-years to increases in workload which it specified in detail by cost centre.

Decision

The Board finds that overruns associated with the person-year utilization for 1982 were reasonably incurred and approves the Salaries, Wages and Benefits overrun associated with the additional 4 person-years.

(iii) Allocations to Foothills, Capital and Non-Utility

Westcoast's 1982 O & M budget submission included a net amount of $9,276,000 for Salaries, Wages and Benefits in its Vancouver Departments after allocating $5,981,000 to Foothills, capital and non-utility projects. The Board, after making a reduction of $884,000, approved a budget for Salaries, Wages and Benefits of $8,392,000 ($9,276,000 less $884,000).

During the hearing, the Company stated that the $884,000 reduction made by the Board had been incorrectly deducted from the net Salaries, Wages and Benefits, whereas it should have been deducted from the gross Salaries, Wages and Benefits. An allocation of the $884,000 should have been made to the Salaries, Wages and Benefits for Foothills, capital and non-utility activities. If that allocation had been made, the gross Salaries, Wages and Benefits would have been reduced from $15,257,000 to $14,373,000; the allocation to the utility operation would have been reduced by $346,000 to $5,635,000; and the 1982 Salaries, Wages and Benefits budget would have been approved at $8,738,000.

The actual expense for Salaries, Wages and Benefits in 1982 was $9,302,000 which was $910,000 above the approved budget. However, if the 1982 budget adjustment had been made as suggested by Westcoast, the overrun would have been $564,000 ($9,302,000 less $8,738,000) and Westcoast would have received an additional $346,000 in its approved cost of service toll.

It is the Board's opinion that, considering the circumstances, a Salaries, Wages and Benefits overrun of $712,000 for the Vancouver Departments which is the $910,000 overrun less the disallowance for merit increases of $198,000 as explained in section 5.1.2(i), was reasonably incurred.

The problem of the cross-subsidization of Foothills, capital and other non-utility operations by Westcoast's utility operations is discussed in sub-section (iv) below.

Decision

Westcoast is authorized to recover in its September 1983 cost of service toll an overrun for 1982 Salaries, Wages and Benefits in its Vancouver Departments of $712,000.

(iv) Budgeting Requirements

Although Westcoast was originally established as a utility with the corporate objective of buying, transmitting and selling natural gas, the Company has diversified through subsidiaries into activities which do not fall under the jurisdiction of the NEB. Such diversification gives rise to questions concerning the equitable treatment of utility and non-utility activities. Westcoast had developed allocation procedures which were employed in its cost of service calculations and these procedures were reviewed in the 1979 hearing. At that time, the Board found these procedures to be satisfactory.

In this hearing, the Board focussed on the allocation procedures used by Westcoast and was concerned by Westcoast's suggestion that its executives worked their regular hours on utility activities and overtime hours on Foothills and other non- utility activities. However, Westcoast assured the Board that there was an allocation to non-utility operations. The Board sought to establish if there was a system more equitable than that currently employed.

Several intervenors were concerned with the degree of flexibility that Westcoast exercised in allocating time between utility and non-utility activities in the Vancouver Departments. For example, when forecast non-utility activities do not materialize, Westcoast transfers the unutilized time into its utility operations; thus, the utility incurs the cost of both actual and surplus staff time, whereas the non-utility operations incur costs only for time actually used.

Westcoast stated that it was staffed to meet peak day requirements and that, with the exception of the Corporate Development Department of the Vancouver Departments, Westcoast's complement did not include any staff employed solely for non-utility activities.

In final argument, the BCPC submitted "that Westcoast should be required to set separate budget estimates for each of the operations within its corporate organization and that the utility system, like the others, be given a budget figure and assigned a level of costs which actually reflects its own needs".

The Board finds that the current budgeting and reporting of salaries, wages and person-years is inadequate, given the diversification that has taken place in Westcoast since it was first established as a utility and the significant transfer of 1982 budgeted salary and wage costs from capital, Foothills and non-utility activities to Westcoast's utility operations and maintenance expenses.

Decision

The Board has decided that changes are required to the method used by Westcoast to prepare its O & M Budgets. The Board has determined the principles which should apply to the preparation of O & M Budgets and expects Westcoast to apply these principles to the preparation of its 1984 O & M Budget. However, the Board will not translate these principles into an order until it has had the opportunity to see the application of these principles to the 1984 O & M Budget and to receive any comments which Westcoast or interested parties may wish to make.

The principles which shall apply to the preparation of the O & M Budget are as follows:

1. **The O & M Budget shall be separate and distinct from the budgets for utility capital, Foothills, and other non-utility activities.**

2. **The O & M Budget shall include only those person-years which Westcoast judges will be required and fully utilized for O & M purposes. No allocation to utility capital, Foothills, or other non-utility activities is to be made.**

   This approach should not interfere with the work or job description of any individual employee. A full-time position might well be established, for example, which will require an individual to devote 50 percent of the time to O & M and 50 percent to non-utility activities. In this example, the O & M Budget would include only the 1/2 person-year associated with the O & M

activity. The other 1/2 person-year would be included in a separate budget for the non-utility activities.

It is to be expected that a reasonable proportion but not all of senior management person-years will be found in the O & M Budget.

In the event that there is an under- or over-utilization of budgeted person-years in the O & M Budget, this shall be recorded as an under- or overrun, as the case may be, in the O & M Budget. Similarly, in the event that there is an under- or over-utilization of budgeted person-years for utility capital, for example, this shall be recorded as an under- or overrun, as the case may be, in the utility capital budget. There shall be no allocation of person-years.

3. The O & M Budget shall, in total and by cost centre, identify the person-years required for the year, showing permanent and casual employees separately, together with associated salaries, wages and benefits.

4. To ensure that the Board is able to assess properly the O & M Budget for salaries, wages and benefits, Westcoast shall include, with its O & M Budget, information with respect to the person-years required for the year, showing permanent and casual employees separately, together with associated salaries, wages and benefits for each of utility capital, Foothills, and other non-utility activities as well as for Westcoast in total. This information shall be provided in accordance with the same principles which apply to the O & M Budget.

5. Westcoast shall provide the usual information in its O & M Budget with respect to other expenses and contingencies, subject to the principles discussed above.

If requested by Westcoast, the Board will provide guidance in applying these principles.

The Board notes that Westcoast will be utilizing a zero base budget approach in developing the budget for the Vancouver Departments. The Board expects that this approach will include a desk audit by an independent party. The audit should seek to determine whether an employee's time is fully occupied and include a comparison between the job description and the actual duties performed by each employee.

5.1.3 Other Expenses and Contingencies

Other Expenses exceeded the approved budget in four cost centres by a total of $737,000 and Contingencies for the Northern District exceeded the approved budget by $96,000. Westcoast, pursuant to paragraph 14(b) of Schedule A to Order No. TG-5-79, as amended, requested that the Board authorize the recovery of these amounts, which are presently in a deferral account, in the Company's cost of service toll.

During cross-examination, the BCPC questioned Westcoast about an amount of $165,000 charged to Other Expenses in the Southern District for materials required to repair an LM 1500 engine. Westcoast replied that since no provision had been made for such a repair when the Company prepared its 1982 O & M Budget, the $165,000 should, in fact, have been charged to Contingencies. The Company, therefore, amended its budget overrun application by reducing Other Expenses in the Southern District by $165,000 and increasing Contingencies by a like amount. After giving effect to this amendment, the actual amount for Other Expenses in the Southern District is reduced from $3,505,000 to $3,340,000 and the overrun is reduced from $288,000 to $123,000. The 1982 actual expense for Contingencies in the Southern District is increased by $165,000 to $448,000 and the budget underrun of $89,000 becomes an overrun of $76,000.

The total budget overrun for Other Expenses is, therefore, amended to $572,000, and the total Contingencies overrun is amended to $172,000.

Decision

Westcoast is authorized to recover in its September cost of service overruns of $572,000 for Other Expenses and $172,000 for Contingencies.

5.1.4 Approvals

The Board approves a 1982 O & M budget overrun of $1,599,000 together with carrying charges calculated monthly in accordance with paragraph 9.2 of Order No. TG-5-79, as amended, for the period ending 31 August 1983 to be recovered in Westcoast's September cost of service; for details see Table 5.2.

TABLE 5.2

WESTCOAST'S APPROVED 1982 O & M BUDGET OVERRUNS
($000)

Cost Centre	Salaries, Wages and Benefits	Other Expenses	Contingencies	Total
Northern District	-	280	96	376
Southern District	-	123	76	199
Fort Nelson Plant	-	-	-	-
McMahon Plant	-	-	-	-
Taylor Sulphur Plant	114	152	-	266
Pine River Plant	29	-	-	29
Other Cost Centres	-	17	-	17
Vancouver Departments	712	-	-	712
General Administrative	-	-	-	-
Total	855	572	172	1 599

TABLE 5.3

WESTCOAST'S AMENDED 1983 O & M BUDGET APPLICATION
($000)

Cost Centre	Salaries Wages and Benefits	Other Expenses	Contingent Items	Total
Northern District	7,721	6,439	-	14,160
Southern District	5,547	3,286	-	8,833
Fort Nelson Plant	6,558	6,755	-	13,313
McMahon Plant	—	3,741 (1)	-	3,741
Taylor Sulphur Plant	753	647	-	1,400
Pine River Plant	2,081	1,383	-	3,464
Other Cost Centres	614	1,221	-	1,835
Vancouver Departments	9,531	1,976	-	11,507
General Administrative	(122)	5,541	-	5,419
Contingency (2)	-	-	1,126	1,126
TOTAL	32,683	30,989	1,126	64,798

(1) In Westcoast's O & M Budget, an amount of $8,080 is shown as the expenses for the McMahon Plant before the deduction of $4,339 for utility exchange.

2) Re: Northern District, Southern District, Fort Nelson Plant, McMahon Plant, Taylor Sulphur Plant and Pine River Plant.

5.2 1983 Operating and Maintenance Expense Budget

5.2.1 Introduction

Westcoast, by a submission dated 30 November 1982, filed its 1983 O & M Expense Budget in accordance with paragraph 14.(a) of Schedule A to Order No. TG-5-79, as amended. In that submission, the Applicant requested that the Board approve an O & M expense budget totalling $65,363,000 and that the budget for Contingencies no longer be approved on a cost centre basis.

During the course of the hearing, the Company subsequently amended its application and requested approval of an O & M Expense Budget of $64,798,000 (see Table 5.3) comprising $32,683,000 for Salaries, Wages and Benefits, $30,989,000 for Other Expenses and $1,126,000 for Contingencies.

5.2.2 Salaries, Wages and Benefits

(i) General Economic Adjustment

In its forecast of 1983 Salaries and Wages, Westcoast proposed a 6 percent general economic increase, a provision for merit increases for salaried employees equivalent to 0.89 percent of the salaried payroll, and a provision for field reclassifications and upgrades for wage-earners equivalent to 1.05 percent of basic wages. These increases were based on comparable wage settlements made within the oil and gas industry. The Company also provided a summary of a salary survey which demonstrated that the salary rates of Westcoast employees were within the range of community and industry rates surveyed.

(ii) Person-Years

For 1983, Westcoast projected a utilization of 885 person-years. This represents an increase of 15 person-years over the 1982 actual utilization of 870 person-years. The 15 additional person-years are composed of an annualization adjustment of 8 person-years and an increase of 7 person-years resulting from 7 new positions in 1983.

Westcoast stated that the annualization adjustment to the 1982 person-years reflected a provision in the 1983 budget for a full twelve months for positions that were underutilized at some time in 1982 because of employee turnover or staff shortages. This adjustment represented a potential of 878 person-years for 1982. The Company also explained that in June 1982 it adopted a hiring freeze policy. Under this policy, the hiring of new employees was permitted only with

senior management approval and only after it was demonstrated that serious loss of safety or efficiency would result from failure to fill a vacancy. Westcoast provided a breakdown by cost centre of the responsibilities of the 7 new positions and the reasons for these additions in 1983.

(iii) Employee Benefits

Changes in employee benefit costs from 1982 to 1983 were primarily caused by the increased salary and wage base and higher premiums. Benefits were calculated in each year as 15 percent of salaries and wages paid.

(iv) Evaluation

As noted in sub-section 5.1.2(i), the Board still considers that the amount of merit increase in 1982 was excessive. Therefore, in calculating the 1983 approved budget for Salaries, Wages and Benefits, the Board started from a base of the 1982 approved Salaries, Wages and Benefits rather than 1982 actual expenses used by Westcoast. The downward adjustments necessary to Westcoast's application to incorporate this change are $272,000 for Salaries and Wages and $41,000 for Benefits. After allocations to Foothills, capital and non-utility programs, the 1983 Salaries, Wages and Benefits Budget is reduced by $212,000.

The Board accepts the proposed salary and wage and escalation rates for 1983 as reasonable and in compliance with the federal restraints guidelines.

The Board also accepts the provision in the 1983 Salaries, Wages and Benefits Budget for the annualization adjustment of 8 person-years. The Board does not accept Westcoast's position, however, that the 7 additional person-years requested for 1983 are required to operate the system safely and efficiently. The Board concludes that these positions should be filled through transfers and reassignments. The resultant reduction in 1983 Salaries, Wages and Benefits is $220,000. After allocations to Foothills, capital and non-utility programs, the 1983 Salaries, Wages and Benefits Budget is reduced by a further $169,000.

The Board finds the other Benefit changes to be acceptable.

With the adjustments for merit made to the base year amount of Salaries, Wages and Benefits, the exclusion of the Salaries, Wages and Benefits associated with the 7 additional person-years in 1983, and the adjustments resulting from allocations to Foothills, capital and non-utility, the 1983 Salaries, Wages and Benefits Budget is reduced by $381,000 to $32,302,000.

Decision

The Board approves a 1983 Salaries, Wages and Benefits Budget of $32,302,000 based on 878 person-years.

5.2.3 Other Expenses and Contingencies

Westcoast, in its 1983 O&M Expense Budget Application, requested Board approval of $30,989,000 for Other Expenses and $1,126,000 for Contingencies.

The Board, in view of its decision requiring Westcoast to expense the gas loss caused by the line break near Taylor (refer to Section 4.2.2 of these Reasons), has increased Other Expenses by $284,000 to $31,273,000. As a result, the budget for the Northern District has been increased to $6,723,000.

Westcoast also requested that the Contingency budget be approved as a single contingency fund covering all of the operating areas and that approval on a cost centre basis be discontinued. The Company's position was that, because of the difficulty of forecasting the location where a contingency might occur, it would be more appropriate to approve a single overall budget amount for Contingencies. The Board, when it originally approved a Contingency budget, stated that it was being approved on a cost centre basis with certain restrictions which would prevent contingency overruns from being transferred to Other Expenses or to other cost centres.

In the Board's opinion, the Applicant has not demonstrated at this time that the cost centre approach is not practicable. In addition, as indicated in Chapter 3 of these Reasons for Decision, it is the Board's intention to hold a public hearing into the method of regulating the tolls of Westcoast. The desirability of changing the method of determining the contingency budget will be examined at that time.

Decision

The Board approves the 1983 budget for Other Expenses of $31,273,000 and for Contingencies of $1,126,000 on a cost centre basis as shown in Table 5.4 below. The method of determining the Contingency budget for 1984 will be examined at the hearing into the method of regulation.

5.2.4 Approvals

The Board approves the 1983 O&M Budget of $64,701,000; for details see Table 5.4 below.

TABLE 5.4

WESTCOAST'S APPROVED 1983 O & M BUDGET
($000)

Cost Centre	Salaries Wages and Benefits (1)	Other Expenses	Contingent Items	Total Operating & Maintenance
Northern District	7,645	6,723	315	14,683
Southern District	5,518	3,286	203	9,007
Fort Nelson Plant	6,522	6,755	315	13,592
McMahon Plant	—	3,741 (2)	180	3,921
Taylor Sulphur Plant	708	647	23	1,378
Pine River Plant	2,069	1,383	90	3,542
Other Cost Centres	612	1,221	-	1,833
Vancouver Departments	9,309	1,976	-	11,285
General Administrative	(81)	5,541	-	5,460
TOTAL	32,302	31,273	1,126	64,701

(1) The Northern District, the Taylor Sulphur Plant and the Vancouver Departments have been reduced to reflect the disallowance of the seven additional person-years for 1983.

(2) $8,080 less Utility Exchange of $4,339.

The Board recognizes that, due to the delays inherent in the procedures pursuant to Order No. TG-5-79, as amended, its approval of the 1983 O & M Budget is later than the Board would wish and does reduce Westcoast's ability to react to the budget changes identified in this decision. It is the intention of the Board to review these procedures in the forthcoming method of regulation hearing with a view to expediting both the procedures and the issuance of future decisions.

CHAPTER 6

Income Taxes

6.1 Introduction

One of the principal issues examined during the hearing was the manner in which provision should be made for income taxes. Westcoast requested the continuance of the normalized method, a system which was first authorized by the Board for use by Westcoast in its Decision of May 1978. Prior to that time, Westcoast had, by its own choice, employed the flow-through method. The Company, while discussing many aspects of the issue during the hearing, placed particular emphasis on two elements, the policy intent of Parliament with respect to the disposition of the benefits arising from the claiming of CCA and the lack of changes in the relevant circumstances since 1978 when the normalized method was authorized.

6.2 Pricing of Natural Gas - Impact on Cash Flow

Evidence was led in respect of the pricing of natural gas in both the domestic and export markets and the impact of the pricing system on the cash flows of those parties sharing the natural gas revenues. The domestic and export prices are set by the B.C. and Federal governments respectively. Westcoast sells gas in both the domestic and export markets. The revenues from the sale of B.C. gas are remitted to the BCPC after deducting Westcoast's cost of service for transmitting that gas. In the case of out-of-province gas, which is deemed to be for the export market, the same procedure is followed except that Westcoast remits revenue to out-of-province producers.

The BCPC claimed that changes have taken place with respect to the marketability of natural gas since Westcoast was switched to normalization by the Board's May 1978 Decision. The BCPC's prefiled testimony shows a dramatic decrease in its net income from a high of approximately $259,000,000 in 1979 to an estimated $60,000,000 for 1983 due to decreased exports and increased cost of transportation.

For the year 1983, Westcoast estimated its cost of service to be approximately $23,000,000, or 7 percent, greater under normalization than under flow-through. The BCPC estimated that in 1983, the Corporation would have to pay approximately $21,600,000 of this amount and that the balance would be borne by the out-of-province producers. If Westcoast were returned to flow-through, the BCPC would be relieved of this charge. In effect this could increase the BCPC's estimated net income for 1983 from $60,000,000 to approximately $82,000,000. The BCPC claimed that this increase could eliminate the Corporation's need for borrowing to meet its take or pay obligations. The BCPC also stated that a portion of this increase may be passed on to the B.C. producers under the gas purchase contracts. Any such payments may either be retained by the producer or paid out as corporate tax, depending on the tax position of the producer.

Westcoast argued that since the BCPC's net income is transferred to the B.C. Government, the distribution of benefits from the application of flow-through in this case will depend on what the B.C. Government decides to do with the funds. Those supporting flow-through argued that the funds flowed through to the B.C. Government would benefit either the consumers of natural gas in B.C. or the taxpayers in the Province who tend to be the same people in this case.

6.3 Government Policy in Respect of CCA

Westcoast claimed that the main consideration in the debate of normalized versus flow-through is consistency with the legislative intent of the accelerated depreciation provisions. Westcoast stated that the intent of the CCA provisions is to provide pools of capital which the Government hopes will be invested in capital projects to stimulate the economy. Westcoast maintained that flowing the benefits resulting from claiming CCA to the ratepayers would not

conform with that intent and thus would frustrate government policy.

Intervenors argued that if Westcoast adopted the flow-through tax method, the recipients of the benefits would have the same motivation as Westcoast to use the funds.

It was argued that since normalization permits a regulated utility to keep the benefits associated with the CCA, this may motivate the utility to balloon its rate base. Westcoast believes that this argument is invalid since capital additions of a utility have to be approved by the NEB, and consequently, it must be demonstrated that such additions are used and useful.

All those addressing the issue accepted that the Income Tax Act and the regulations establishing the CCA do not mandate as a matter of law how the funds which accrue to a corporation, as a result of the CCA provisions, should be employed. Also, there has not been any statement of the Federal Government indicating its displeasure with the notion of utilities being on flow-through.

6.4 Government Restraint Guidelines (Six-and-Five)

Westcoast stated that the six-and-five guidelines are only explicit insofar as they apply to public sector pay increases and that the guidelines do not have the force of law, nor the sanction of the Parliament of Canada. Westcoast therefore argued that the restraint guidelines cannot be viewed as overriding the CCA policy which was developed over the last 20 years under the Income Tax Act of Canada.

In response to Westcoast's view of the six-and-five restraint guidelines, intervenors argued that the objective of these guidelines had been reflected in the Board's letter dated 18 January 1983 addressed to all pipeline companies within its jurisdiction wherein the Board put the onus on applicants to demonstrate that they have, to the maximum possible extent, complied with the Government's guidelines. The intervenors also stressed that the restraint program, as a measure to fight inflation, is a belt-tightening program that is meant to be applied at the present time.

6.5 Impact on Cost of Capital

Westcoast's position is that a change from normalization to flow-through would result in the downgrading of its bond ratings, and consequently, in a higher cost of capital, particularly the cost of debt. This position was based on TransCanada's experience and the report of the Dominion Bond Rating Service dated 9 August 1982 in which TransCanada's bonds were downgraded. The intervenors pointed out that the report indicated that the reduction was mild and that TCPL had already been close to having its rating reduced prior to the Board's decision requiring TCPL to account for income taxes using the flow-through method. They also submitted that comparisons of costs of debt for flow-through and normalized companies led to conclusions ranging from no effect to something in the order of 35 basis points against a flow-through company.

Westcoast raised the point that a change in the method of calculating income taxes affects the perceived regulatory risk of a company and that such changes backwards and forwards cast doubts on regulatory consistency in Canada. The Company concluded that regulatory risk and the inconsistency of regulation must have deleterious effects in the minds of existing and potential investors in a utility. In this respect, intervenors argued that the report of McLeod, Young, Weir dated 21 March 1983 indicated that the stock of Westcoast was a sound investment in spite of the report's speculation that the Company would probably be returned to flow-through.

6.6 Cost Recognition and CICA Position

The Applicant submitted that tax allocation (normalization) is the method preferred by the CICA and that the use of the flow-through method of taxation by a regulated utility is allowed, subject to certain conditions, as an exception to the general rule. One of these conditions is that there be a reasonable expectation that all taxes payable in future years will be recoverable from the customers at that time. Westcoast argued that this condition cannot be met since it takes many years for the deferred taxes to become collectable, and thus the recoverability of those taxes cannot be reasonably expected.

The CPA/IPAC claimed that the accounting profession is reconsidering its position with regard to tax allocation as evidenced by a research study on Accounting for Corporate Income Taxes which has been prepared at the request of the Accounting Standards Steering Committee of the CICA. The CPA/IPAC also submitted that since October 1978 the accounting profession in England and Wales has recognized only those timing differences reversing within three years. Accordingly, those differences arising from CCA/depreciation have been excluded by the accounting profession in England and Wales.

In respect of the recoverability of future income taxes, the intervenors argued that Westcoast, as any other regulated utility, has a captive market and the collectability of its future tolls, including the deferred taxes, can be expected with confidence. Also, there is no evidence to suggest that the BCPC could not meet these payments.

The Applicant and the intervenors accepted that the existing guidelines of the CICA in this matter, while indicating that the normalized method should be used in almost all situations, recognized the need for possible exceptions in the case of regulated utilities.

6.7 Crossover and Deferred Tax Drawdown

Westcoast predicted, on the basis of its forecasted capital additions, that the crossover point, where CCA becomes less than depreciation, would occur in 1994 or 1995. However, the Company claimed that there were doubts, as a result of the conditions encountered in 1983, that the Board would authorize the capital additions projected by Westcoast for the years 1984-1994. Westcoast stated that if those additions were not authorized, crossover could occur as early as 1984.

The supporters of flow-through submitted that empirical studies have shown that aggregate crossover does not occur and that deferred taxes are generally not paid. They also claimed that with a sufficient sustained growth rate in utility investments, the aggregate CCA will always exceed the straight-line depreciation.

The Applicant argued that, through the mechanism of subtracting deferred taxes from the rate base, the ratepayer gets a return on the amount of that subtraction at the rate of return allowed by the regulatory body. The flow-through proponents stated that the amount subtracted from rate base represents the deferred taxes which are usually less than half the amount collected from the ratepayer to cover the normalized taxes.

Opponents of normalization expressed the concern that the cash flow provided under normalization may be used to finance non-utility investments which may affect the Company's ability to pay its taxes after crossover. On the basis of that concern, they concluded that a normalized utility has a risk which a flow-through utility does not have, because the latter would receive the full amount of its income taxes in the cost of service in the year that the income taxes are due. In response to those concerns, Westcoast maintained that, by subtracting the deferred taxes from rate base, an automatic investment in rate base results. Also, the Company expressed confidence in its ability to pay future taxes under normalization, stating that such confidence was based on the prudence and effectiveness of the Company's management.

6.8 Intergenerational Equity/Rate Levelization

Westcoast argued that a flow-through company might pass on the tax incentives to ratepayers who may not be the ratepayers at the time those taxes become payable. In support of this argument, the Company referred to the November 1978 Decision in which the Board considered the expiry of Westcoast's export licence in 1989 as an intergenerational equity factor in favor of normalization. The Company maintained that this factor is still valid. Since only a small portion of Westcoast's facilities would be dedicated to export beyond 1989 and that portion would continue to decline and terminate by 1992, the export customers who would receive the benefits at the present time may not be available to pay the income taxes when they become due.

The intervenors adopted the view that a normalized company receives the tax incentive from the Government and might not have to pay it back. They also argued that since there is a fixed uniform border price for

all gas leaving Canada, the loading on the back end or the front end of the cycle would have no conceivable effect on what the U.S. consumer pays for the gas.

Intervenors also submitted that the flow-through method of accounting for income taxes directionally tends to levelize. Westcoast argued that the impact on rate levelization would be minimal.

6.9 Decision

The Board has considered all the evidence presented by the parties to this Hearing. It is the Board's view that there have been significant changes in the circumstances from those which prevailed at the time of the 1978 Decision.

There has been a marked reduction in exports of natural gas via the Westcoast system. As a result, the cash flows to the BCPC and out-of-province producers have decreased materially. In the meantime, Westcoast has been sheltered from the decline in export sales because of the terms of the Company's Agreement with the BCPC. However, the mere fact that the BCPC revenues have declined is not a sufficient reason in itself to change to flow-through. A more persuasive reason, in the Board's opinion, is the argument that Westcoast's regulated utility activity does not require the revenue and that the public interest could be equally well served by passing the benefits to the BCPC and indirectly to all B.C. taxpayers, to B.C. producers, and to a much smaller extent to the out-of-province producers.

Over the last few years, there have also been major changes in the Canadian economy, including a period of extreme inflation as well as a serious recession. In 1982, the Government of Canada introduced restraint guidelines. At that time, the Government expressed its intention that these guidelines would be applied, wherever possible, to prices and wages subject to Federal Government control. On 18 January 1983, the Board issued a letter to all companies subject to its jurisdiction indicating that the Board would take the Federal "6 and 5" program into consideration in making its decisions, and that the Board would expect companies under its jurisdiction to demonstrate maximum possible compliance with the program in any application brought to the Board. The Board regards the Federal Government restraint program as an important policy measure which ought to be complied with by companies subject to Federal jurisdiction whenever possible provided the resulting tolls are just and reasonable.

Another change of some significance is the difference in the expectations respecting major projects. In the past, Westcoast has been involved in major projects requiring massive capital expenditures. During the hearing, Westcoast referred to two possible large projects, Vancouver Island and Western LNG, in which it might become involved. The evidence indicates that Westcoast's ability to finance these capital projects will not be impaired if the Company is returned to the flow-through method. In this respect, the Board is of the opinion that a change to the flow-through method would not have a material effect on the rating of Westcoast's bonds. The Board concludes that whether a company is on the flow-through or the normalized method will be a factor in the minds of the rating services, but not an absolute determinant. Other factors are probably given more substantial weight.

Accordingly, the Board has decided that the allowance for income taxes to be included in Westcoast's cost of service, effective 1 January 1983, shall be calculated on a flow-through basis. The disposition of the Company's deferred income tax balance as at 31 December 1982, and of the amounts which have been included in its cost of service on account of normalized income taxes since 1 January 1983, is discussed in section 4.8.3.

CHAPTER 7

Rate of Return

Westcoast applied for the following deemed capitalization and before-tax rate of return on rate base for the test year ending 31 December 1983.

TABLE 7-1

	Amount ($000)	Ratio (%)	Cost (%)	Return Component (%)
Balance of External Financing	25,895	3.34	12.97	.43
Long-Term Debt	445,157	57.49	10.80	6.21
Preferred Shares	32,273	4.17	8.50	.35
Common Equity	271,021	35.00	15.90	5.57
	774,346	100.00		
Rate of Return on Rate Base after Income Taxes				12.56
Utility Normalized Income Taxes			6.46	
Rate of Return on Rate Base before Income Taxes				19.02

7.1 Deemed Capital Structure

The applied-for capital structure reflects the capital allocation method set out in the Board's November 1980 Decision which was established in order to ensure that the ratepayer did not subsidize non-utility investments. Accordingly, the average test-year utility capitalization was equated to the average rate base plus construction work in progress. The common equity component was deemed to comprise 35 percent of this average capitalization. The remainder of the capitalization was deemed to consist of long-term debt, preferred equity and balance of external financing capital in the same proportions as each is represented in the total amount of long-term debt, preferred equity and balance of external financing capital existing within the corporation. The individual components of the capitalization together with matters relating to the associated capital cost rates are discussed below.

7.2 Balance of External Financing

The term "balance of external financing" refers to debt which the Company has yet to fund on a long-term basis for the 1983 test year. The Company requested that this balance be costed at a long-term rate of 12.97 percent on the assumption that it will be funded on a long-term basis during 1983. However, during cross-examination, it was determined that WTCL has no plans for further long-term issues in 1983 and that it is likely that this balance will continue to be financed during the test year on a short-term basis. It was also determined that corporate policy is to obtain short-term funds from the least cost source, which was stated, in general,to be the commercial paper market. The Company's recently experienced monthly short-term borrowing rates were given in evidence. The Board notes these rates averaged 121 basis points less than the average commercial bank prime rate of 11.69 percent for the first four months of 1983.

BCPC was the sole intervenor to take issue with the Company's proposal for costing the balance of external financing. Its expert witness suggested a long-term rate was inappropriate as Westcoast had already financed this balance for a significant portion of the test year at short-term rates. This witness proposed using a combined short-term/long-term rate of 11.89 percent to cost the balance of external financing. This rate was based on the average commercial bank prime rate for the first four months of 1983 and an estimated long-term rate of 12.00 percent for the balance of the test year.

7.3 Long-term Debt

Westcoast calculated its embedded test year cost of long-term debt to be 10.80 percent and allocated 87.3 percent of its total debt to the utility operation, based on the allocation method set out in the Board's November 1980 Decision. While no intervenor contested Westcoast's estimated embedded cost of long-term debt, CPA/IPAC took issue with the method of allocating long-term debt between utility and non-utility operations.

CPA/IPAC took the position that a large portion of the approximately $110 million in proceeds from the Company's two most recent debenture issues was used to retire bank loans that had been incurred with respect to the acquisition of shares of Westcoast Petroleum, a non-jurisdictional asset. They further noted that these two debt issues carry interest rates of 16.75 percent and 12.5 percent, which are higher than the average rate on the Company's other existing long-term debt. Consequently, CPA/IPAC concluded that if these two issues were to be allocated in the same proportions as all other issues, then the utility operations would bear a higher embedded debt cost rate simply because of the Company's non-utility expansion. CPA/IPAC did not, however, put forward any proposal as to what they felt would constitute an appropriate method by which to allocate the two most recent issues of long-term debt.

During cross-examination, a witness for the Applicant pointed out that the prospectuses associated with the debt issues in question indicated that the proceeds were to be used to finance both utility and non-utility expenditures and that no more than 12 percent of the last two long-term debt issues (i.e. the approximate proportion of total corporate debt allocated to non-utility operations) had been used to repay bank loans related to the acquisition of Westcoast Petroleum shares. Westcoast submitted that it is difficult to trace the dollars from the two debt issues in question. It further argued that if CPA/IPAC felt a revised method of debt allocation was necessary, they should have submitted evidence which would have been subject to cross-examination. In conclusion, the Applicant submitted that there was no basis on which the Board should accept CPA/IPAC's argument.

7.4 Preferred Shares

The preferred share capital contained in the applied-for capitalization was calculated in accordance with the existing approved capital-allocation methodology. The indicated cost rate of 8.50 percent was calculated in a manner consistent with prior applications and was not an issue in these proceedings.

7.5 Common Equity

7.5.1 Common Equity Ratio

The Company applied for a deemed 35 percent common equity component which it indicated was at the low end of the range of reasonableness. It was noted that this is equal to Westcoast's existing approved deemed common equity ratio. The Applicant's two expert witnesses cited the level of Westcoast's business risks, the implicit capital structure of its non-jurisdictional activities, the requirement to have an appropriate balance among the different components of the deemed capital structure and the historical evolution of Westcoast's capital structure in support of the applied-for deemed common equity ratio.

Business risk was said to have increased since the time of the Company's last toll hearing by virtue of the unsettled conditions in the Company's U.S. export markets. However, it was noted during cross-examination that the nature of the BCPC Agreement insulates the Company from declines in market demand. In this regard, the Company's expert witnesses suggested that changes in the economic fundamentals underlying the Agreement called its continued existence into question. However, a witness for the BCPC regarded the possibility of a unilateral abrogation or termination of the Agreement as unlikely, in view of the fact that Westcoast could turn to Alberta for its required gas, leaving the BCPC with gas purchase contracts and no means of transportation. This witness also indicated that he felt investors placed great faith in the Board's statement, made in its 1980 toll decision, that it would wish to review Westcoast's tolls should there be a significant change in the Agreement.

The Applicant's expert witnesses also felt that the business risks confronting the Company had increased due to the possibility of Cabinet review of regulatory decisions such as that which occurred with respect to TCPL in 1982 and due to the possible non-recovery of costs arising out of the Board's application of the Federal Government's "6 and 5" restraint program. With respect to the former point, TCPL had been affected by decisions with respect to domestic pricing made by the Federal Government under the Energy Administration Act. The Energy Administration Act does not authorize the Federal Government to set the

domestic price of gas produced and consumed within the same province such as British Columbia. Decisions by the Board under Part IV of the Act are not subject to review by the Federal Government. With respect to the latter, the witness for BCPC was of the opinion that the "6 and 5" restraint program had had a beneficial effect on Westcoast's stock prices which far outweighed the possible non-recovery of costs that might arise from the implementation of the program. This witness was also of the view that the Company's physical or operating risk had declined since its last toll hearing due to the completion of an $18 million looping program. However, the Applicant's witnesses contended that this program had not had a significant effect on its total operating risk in view of the extent of its remaining unlooped pipeline.

With respect to the implicit capital structure underlying its non-utility activities, the Applicant's witnesses felt that the 35 percent equity ratio deemed for the utility left a residual amount of common equity underpinning the non-utility which was reasonable and did not give rise to cross-subsidization of those activities by the Company's ratepayers.

BCPC's expert witness noted that the acceptance of his recommended common equity ratio of 33 percent would imply a reasonable common equity ratio for WTCL's non-utility investments given that Westcoast Petroleum made up the predominant share of such assets.

The witness of B.C. Hydro was of the view that the applied-for deemed common equity ratio of 35 percent implied a certain degree of cross-subsidization of WTCL's non-utility activities by its jurisdictional pipeline operations. This witness recommended a 30.7 percent deemed common equity ratio which she found by deducting an amount equal to the entire book value of the Company's non-utility investments from the common equity of WTCL's corporate capital structure. The Applicant's witnesses felt the approach taken by this witness to be inappropriate because, inter alia, they believed a utility capitalization should not be computed as a residual and that the result obtained from this approach did not constitute a balanced capital structure.

In regard to maintaining a balanced capital structure, the Applicant contended that the applied-for deemed common equity ratio was appropriate in that it served to provide for the ability to compete reasonably for funds in the marketplace. One of the Company's expert witnesses noted that an examination of the capital structures of other high quality Canadian utilities revealed Westcoast's proposed 61 percent debt ratio to be the second highest in the group. When considered in conjunction with WTCL's relatively low level of preferred stock, this witness felt a 35 percent deemed common equity ratio represented the lower limit of a range of reasonableness.

In considering the requirement to maintain financial integrity via a balanced capital structure, the expert witness for BCPC compared Westcoast with TransCanada and NOVA. He concluded that his recommended 33 percent deemed common equity ratio was acceptable based on his views as to comparative levels of business risk and 1983 pro forma interest coverage requirements.

In considering WTCL's requirement or need to compete for capital, as well as factors relating to the relative business and financial risks of TransCanada, TransAlta Utilities Corporation and Canadian Utilities Limited, the witness for CPA/IPAC asserted that a deemed common equity ratio of 31 to 33 percent could be considered reasonable. Based upon his analysis, the witness recommended the allowance of a 32 percent deemed common equity ratio.

In addition to the factors already discussed, the Applicant's witnesses felt that the historical evolution of the Company's capital structure should be taken into account in determining an appropriate deemed common equity ratio. This position had regard to the assertion that in its earlier, riskier years of operation, Westcoast could only issue debt securities by attaching equity "sweeteners" thereto. This, they concluded, resulted in Westcoast coming to have a common equity ratio higher than would otherwise be the case.

7.5.2 Rate of Return on Common Equity

Westcoast applied for a rate of return on common equity of 15.90 percent as compared to the currently allowed rate of 15.00 percent. A Company witness indicated that this rate had been requested in keeping with Westcoast's objective of meeting governments' calls for restraint, notwith-

standing the advice of its expert witnesses. In this regard, Westcoast presented two expert financial witnesses. One witness recommended a rate of return in the range of 16.25 to 16.50 percent based on his consideration of the equity risk premium, discounted cash flow (DCF) and the comparable earnings approaches to estimating the cost of equity capital. The results of his equity risk premium and DCF analyses led him to adopt a final estimate of the investors' required return (IRR) for Westcoast's transmission operations in the range of 15.25 to 15.50 percent. This range was restated to reflect what he viewed as an appropriate range of market-to-book ratios under current circumstances and resulted in his recommended rate of return on book equity of 16.25 to 16.50 percent. The witness rejected the comparable earnings test as a measure of fair and reasonable rates of return for the test year based on his view that 1983 corporate profit levels and rates of return on book equity will be inadequate.

The Company's second witness recommended a rate of return on equity range of 16.0 to 16.25 percent based on the results obtained from his equity risk premium, DCF and comparable earnings analyses. His comparable earnings approach, based on the book equity returns of what he considered to be groups of comparable risk industrial companies, indicated that these industrials had achieved rates of return ranging from 16.0 to 17.0 percent over the period reviewed, while maintaining adequate average market-to-book ratios. He then judgementally selected 16.25 percent from the lower end of the range as being appropriate for Westcoast, to reflect his expectations of a slow economic recovery and reduced inflationary expectations. The witness' DCF approach suggested a "bare bones" cost of capital, excluding flotation costs, of 15.0 percent. This figure was adjusted upwards to reflect a market-to-book ratio range of 1.15 to 1.25 to permit the Company to achieve a reasonable degree of financial integrity. This led to his recommended DCF range of rate of return on equity of 16.2 to 16.9 percent. He confirmed the reasonableness of this range by a DCF analysis of the cost of equity capital for four electric or gas utilities and two groups of stable industrial companies. In his equity risk premium analysis, the witness used two techniques in deriving a 15.25 to 15.75 estimate of the cost of equity capital, excluding flotation costs. The addition of flotation costs suggested a final cost in excess of 16.0 percent in both instances.

BCPC presented evidence in this matter and recommended a rate of return in the range of 14.0 to 14.5 percent. In advancing the recommendation, its expert witness relied on the comparable earnings, DCF, equity risk premium and capital asset pricing model (CAPM) approaches to estimating the cost of equity capital. His comparable earnings approach was based on a review of historical returns on book equity for a sample of low-risk industrials and for a second sample of Canadian utility and pipeline companies. After adjusting the observed, achieved rates of return on common equity for his two samples downwards to reflect his forecast of reduced inflation rates during the current business cycle, the witness adopted a rate of return range of 13.4 to 14.6 percent for the first sample and of 13.55 to 13.8 percent for the second. He subsequently concluded that the lower end of both ranges would be most applicable to Westcoast. Using two techniques to estimate the utility growth rate, his DCF analysis indicated a "bare bones" cost of equity capital of between 11.8 and 13.2 percent. This range was adjusted upwards to reflect a market-to-book ratio of 1.15 to 1.20 to permit the Company to preserve financial integrity, resulting in a final recommendation in the range of 12.8 to 14.7 percent. The witness' risk premium approach involved calculation of common-over-preferred-equity and common-over-long-term-debt risk premiums. Each risk premium was then added to an appropriate base, adjusting the resulting values back to a before-tax basis where applicable. Giving greater weight to the common-over-preferred-equity risk premium, he adopted a final recommendation in the range of 13.4 to 14.1 percent. His CAPM test indicated a cost of equity capital in the range of 12.6 to 13.5 percent based on a current Government of Canada treasury bill rate of 9.3 percent; an estimated beta of .60 for WTCL's transmission operations; and an estimate of the differential between future stock market returns and treasury bill returns ranging from 5.5 to 7.0 percent.

B.C. Hydro presented evidence during the hearing recommending a rate of return of 14.5 percent. In arriving at this recommendation, B.C. Hydro's witness first adopted a Company witness' estimate of the cost of consolidated common equity of 15.0 percent. This was subsequently adjusted downwards by 50 basis points to reflect a perceived lower level of risk in Westcoast's

utility operations to arrive at her final recommendation.

CPA and IPAC presented joint evidence in this matter and recommended a rate of return of 14.25 to 14.75 percent. In making the recommendation, their expert witness relied principally on the DCF approach and on an analysis of the reasonableness of the equity risk premium implicit in the result obtained from that technique. His DCF approach suggested an IRR range of 13.6 to 14.1 percent, to which he added 65 basis points to permit Westcoast to maintain financial integrity. This resulted in his final recommended range of 14.25 to 14.75 percent. He noted that this range incorporated a 2.5 to 3.0 percent equity risk premium over the long-term Government of Canada bond rate. This margin, in his view, was below traditional historical levels, but he suggested it was in accordance with recent narrower margins which, in his opinion, have evolved due to the advent of high and volatile levels of inflation. Counsel for CPA and IPAC subsequently recommended the lower end of the range as being appropriate for Westcoast.

7.6 Decision

The Board finds it reasonable to equate average test year utility capitalization to average rate base plus construction work in progress. Having regard to the nature of WTCL's utility business risks, the implicit capital structure of its non-jurisdictional activities, the desirability of maintaining a balanced capital structure and the evolution of the Company's capital structure, the Board finds a 35 percent common equity ratio to be appropriate for the test year. In addition, the Board continues to be of the view that the remainder of the Company's capitalization should be deemed to consist of long-term debt, preferred equity and balance of external financing capital in the same proportions as each is represented in the total amount of long-term debt, preferred equity and balance of external financing capital existing within the corporation as a whole.

As regards the balance of external financing, the Board notes that WTCL has no plans for further long-term debt issues in 1983 and that it is likely that this balance will be financed throughout the test year at a rate approximating WTCL's commercial paper borrowing rate. Accordingly, after considering WTCL's experienced 1983 first quarter short-term borrowing rates, and the various forecasts set out in the evidence for the average 1983 commercial prime rate and commercial paper rates, the Board finds a cost rate of 10.0 percent appropriate for the balance of external financing.

The cost rate for long-term debt was computed in the same manner as that used in the 1980 proceeding. The estimated rate for long-term debt was not contested in these proceedings. The Board accepts the applied-for cost rate of 10.80 percent.

The cost rate for preferred share capital financing was not an issue in these proceedings. As a result, the Board approves the indicated cost rate of 8.50 percent.

In considering an appropriate rate of return on common equity, the Board notes that the expert witnesses for the Applicant agreed that there are problems involved in applying each of the various approaches used to estimate the cost of equity capital. The Board is of the view that the determination of an appropriate rate of return on common equity necessarily involves the exercise of judgment. Having regard to all of the evidence presented and the recent decline in the cost of capital environment, the Board finds 14.75 percent to be a fair and reasonable rate of return on the allowed 35 percent deemed common equity ratio.

7.7 Rate of Return on Rate Base

As a result of the above decisions regarding the components of capital structure and the associated capital cost rates, the Board finds that the allowable Rate of Return (exclusive of income taxes) on Rate Base is 12.05 percent.

One twelfth of this percent, namely 1.004167 percent is the rate to be applied to the allowable rate base (net of deferred income taxes) each month in order to determine the dollar value of the Return on Rate Base to be included in the allowable cost of service.

The derivation of the allowed Rate of Return on Rate Base is set forth below:

TABLE 7-2

	Amount ($000)	Ratio (%)	Cost (%)	Cost Component (%)
Balance of External Financing	25,780	3.34	10.00	.33
Long-Term Debt	443,182	57.49	10.80	6.21
Total Debt	468,962	60.83		6.54
Preferred Shares	32,130	4.17	8.50	.35
Common Equity	269,819	35.00	14.75	5.16
	770,911 (a)	100.00		
Rate of Return on Rate Base after Income Taxes				12.05

(a) Derivation of total capitalization is illustrated in Appendix VI.

Other Cost of Service Items

8.1 McMahon Plant Operating Agreement

Westcoast's McMahon gas and power plant is operated by Petro Canada under an operating agreement which provides Petro Canada with an operator's overhead fee of 12 percent of all direct charges and allocated costs. In the 1983 budget this amounted to $871,000.

The Board accepts on the basis of the evidence adduced at the hearing that the operator's overhead fee is not unreasonable. However, the Board is not convinced that Westcoast could not itself operate the McMahon Plant at a lower cost thereby benefiting the Company's toll-payers. As a result, the Board requires Westcoast to submit, with its 1984 O & M budget, a study comparing the relative merits of both options.

Decision

The Board requires Westcoast to submit, with its 1984 O & M budget, a study comparing the relative merits of continuing the existing agreement with Petro-Canada for the operation of the McMahon Plant versus Westcoast's operation of the Plant.

8.2 Insurance

The Board expressed concern about the procedures followed by the Company in obtaining its insurance coverage. The Board remains concerned that the Company secure the most comprehensive coverage which can be reasonably obtained at competitive premiums and urges the Company to re-examine its present insurance coverage.

Decision

The Board requires the Company to file, by 31 December 1983, a report outlining the steps taken to secure the most comprehensive insurance coverage at competitive premiums.

8.3 Paragraph 9 of Schedule A to Order No. TG-5-79, as amended - Unusual Costs Resulting from Emergency Actions

The Board previously indicated its intention, in section 5.2.3 of these Reasons, to review the method of setting operating and maintenance contingency budgets as part of the hearing into the method of regulating Westcoast's tolls. Since emergency actions may be related to contingencies, the Board will also review, during that hearing, the procedures relating to paragraph 9 of Schedule A to Order No. TG-5-79, as amended, concerning the treatment of certain costs resulting from emergency actions.

Decision

A review of paragraph 9 of Schedule A to Order No. TG-5-79, as amended, is deferred to the hearing into the method of regulation.

8.4 Provisions under TG-5-79, as amended - Carrying Charges on Operating and Maintenance Expense Budget Overruns

The original Board Order No. TG-5-79 made provision under paragraph 9 for monthly carrying charges on O & M expense budget overruns to be calculated at the prime interest rate plus 1 percent, and under paragraph 7 of Schedule A for monthly carrying charges on deferred costs arising from overruns of O & M expense to be calculated at 1/12 of prime bank rate plus 1 percent. Paragraph 9 was subsequently amended to reduce the carrying charge to the prime interest rate charged by Westcoast's bankers for each such month; Paragraph 7 of Schedule A was not so revised.

Decision

For consistency, the Board is, therefore, reducing the carrying charge under paragraph 7 of Schedule A to the prime interest rate charged by Westcoast's bankers.

8.5 Depreciation Study

The Board has made a practice of requesting companies subject to its jurisdiction to undertake depreciation studies approximately every five years. Since Westcoast carried out its last study in 1978, the Board now requires the Company to undertake a further study. The Board notes that Westcoast made provision for a depreciation study in its 1983 O & M budget under Special Services.

Decision

Westcoast is directed to submit a complete depreciation study to the Board by 31 December 1983. This study is to include all gathering plant, products extraction plant, transmission plant, general plant and intangible plant.

8.6 Surtax on Income Taxes

Westcoast requested the inclusion in its 1983 cost of service of $1,485,000 on account of surtax on income taxes comprising $714,000 paid on 28 February 1983 in respect of the 1982 surtax and $771,000 tax on this surtax. The calculation of the surtax was based on the Company's total taxable income since the utility's taxable income on a stand-alone basis was greater than that of the total Company. Had the calculation of the surtax been made on a stand-alone basis, it would have resulted in an amount greater than that actually paid.

Previously, Westcoast requested the inclusion of its estimated 1981 surtax in its 1982 cost of service. In response to that application, the Board stated in its letter of 16 February 1982:

> "...that effective 1 February 1982 Westcoast shall, for accounting purposes, record each month in NEB Account 179 (Other Deferred Debits) the actual surtax paid in any given month, together with carrying charges at the prime interest rate charged by Westcoast's bankers. The disposition for cost of service toll purposes of the deferred balance, including carrying charges will be decided at a future public hearing."

Decision

The Board approves the recovery, in Westcoast's September cost of service, of $1,485,000 with carrying charges at the prime interest rate charged by Westcoast's bankers. In subsequent years, Westcoast shall include the surtax on income taxes in its cost of service toll billing for the month in which the surtax is paid.

Federal Restraint Program

9.1 Background

In its 28 June 1982 budget, the Federal Government introduced a two-year wage and price restraint program as part of a national effort to reduce the rate of inflation. Under this program increases in prices under federal jurisdiction, and increases in pay in the federal public sector are to be held to no more than six percent during the first year of the program and five percent during the second year of the program.

In a letter dated 1 September 1982, the Board advised pipeline companies under its jurisdiction that it intended to take into account, along with other considerations, the restraint guidelines as they relate to employee compensation aspects of toll applications.

In a further letter dated 18 January 1983, the Board advised these pipeline companies that:

> "For the duration of the 6/5 restraint program the Board, bearing in mind the provisions of the National Energy Board Act governing the setting of just and reasonable tolls, will closely examine all elements of cost of service including rate of return on equity, to ensure where possible maximum compliance with the Government's cost and price guidelines.
>
> Accordingly, in all future toll applications, applicants, in substantiating increases in all items of cost of service, should particularly address those increases which exceed the cost and price guidelines. The onus will be on applicants to make their cases that, in respect of the tolls for which they are applying, they have to the maximum possible extent complied with the Government's guidelines."

Therefore, the Board has examined the increase in Westcoast's total cost of service from 1982 to 1983 to determine the extent to which the increase is in compliance with the restraint program, i.e. 6 percent or less over the 1982 actual cost of service. This is the first year in which the Board has considered Westcoast's cost of service in light of the restraint program. The 1984 budget year will be the second year in which the Board will examine Westcoast's cost of service in light of the restraint program.

9.2 Westcoast's 1983 Application

For 1983, Westcoast projected an increase of 8.6 percent in its total cost of service. As shown in Table 1-2 in Chapter 1, components of the cost of service including operating and maintenance expenses, depreciation and return on rate base were projected to increase by 7 percent or less. Other components such as amortization and taxes other than income taxes were forecast to increase by 15 percent or more.

Westcoast forecasted a 47 percent increase in its amortization account in 1983 primarily due to Extraordinary Plant Loss resulting from the premature removal from service of portions of the Grizzly Valley Pipeline and the retirement of an additional W-92 compressor unit at Compressor Station 2B. Amortization accounts for 0.6 percent of the total cost of service.

The Company reported that the major reason for the 15 percent increase in taxes other than income taxes in the test year is the forecast increase in property taxes of approximately 18 percent. Expectations of a higher mill rate coupled with increased plant, a loss of an obsolescent reduction factor which was granted in 1982 and the reintroduction of right-of-way land values on pipeline assessments, resulted in Westcoast's conclusion that property taxes will increase by 18 percent in 1983. Taxes other than income taxes account for about 17 percent of the total cost of service.

9.3 Impact of Decision

The Board examined Westcoast's 1983 cost of service to determine the extent to which the increases are in compliance with the Federal Government's restraint program. After giving effect to the adjustments flowing from this decision, the Board finds that Westcoast is in compliance with respect to salaries, wages and benefits, and with respect to the 1983 O & M Budget approved by the Board which will increase by 5.69 percent over 1982. The Board also notes that all other increases in the components of the 1983 cost of service, with the exception of taxes other than income taxes, are in compliance with the restraint program.

The increase in taxes other than income taxes is mainly due to factors outside Westcoast's control. Principal among these is an estimated 18 percent increase in property taxes resulting from expected higher mill rates coupled with a larger utility plant. With respect to the higher mill rates Westcoast indicated in its evidence that these higher rates could be expected as a result of reductions that had taken place in assessed values of most farms and residential properties in B.C. if government revenue requirements are to be maintained.

The reduction of the 1983 estimated cost of service compared to the 1982 actual cost of service amounting to 3.54 percent is due primarily to the Board's decisions regarding income taxes, and the Grizzly Valley pipeline and Vancouver Island pipeline project cost deferrals.

CHAPTER 10

Disposition

Order Nos. AO-19-TG-5-79 and AO-20-TG-5-79, which are shown as Appendices VII and VIII respectively, were predicated upon these Reasons for Decision.

The foregoing chapters (with the exception of the Executive Summary), together with the above Orders, constitute our Reasons for Decision and our Decision.

A.D. Hunt
Presiding Member

A.B. Gilmour
Member

W.G. Stewart
Member

Appendix I

File: 1562-W5-3

10 August 1982.

VIA TELECOPIER

Mr. A.H. Willms,
Senior Vice President,
Westcoast Transmission Company Limited,
1333 West Georgia Street,
Vancouver, British Columbia.
V6E 3K9

Dear Mr. Willms:

It is the opinion of the Board that it is desirable at the time of reviewing Westcoast's 1983 Operating and Maintenance Budget Submission and the 1982 Budget Variance Report, to review other matters relating to Westcoast's cost of service tolls.

It is therefore the Board's intention to examine through the public hearing process, Westcoast's 1983 Operating and Maintenance Budget submission, 1982 Budget Variance Report, and all other matters relating to the Company's cost of service tolls which to the Board appear relevant.

Accordingly, by the end of 1982, Westcoast is to file information on its cost of service for 1983 in the same form and detail as if it were making an application for a change in tolls.

Yours truly,

G. Yorke Slader,
Secretary

cc: Interested parties pursuant
to Order No. TG-5-79

Appendix II

ORDER NO. TGI-2-82

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an application by Westcoast Transmission Company Limited for certain orders respecting its tolls pursuant to the National Energy Board Act, filed with the Board under File No. 1562-W5-3.

B E F O R E the Board on Monday, the 20th day of December, 1982.

UPON Westcoast Transmission Company Limited (hereinafter referred to as "the company") having filed with the Board on 1 December 1982 an application for certain orders respecting its tolls pursuant to section 17 and Part IV of the National Energy Board act;

AND UPON said application requesting, inter alia, an interim order fixing interim tolls the company may charge for or in respect of gas transported or sold by it from and after 1 January 1983, which tolls to be calculated in accordance with said application;

AND UPON the Board having decided to consider at a public hearing the matter of the tolls the company may charge;

AND UPON the company having, since 1 November 1979, charged and received tolls determined in accordance with National Energy Board Order No. TG-5-79, as amended;

AND UPON it appearing to the Board that current economic trends may warrant some adjustment of the company's tolls and in particular an adjustment of the company's Return on Rate Base before Income Taxes;

AND UPON it appearing to the Board desirable to reserve its finding on the nature of such adjustments until it has heard the evidence and submissions of the company and interested parties at the said public hearing;

AND UPON the Board finding it appropriate to issue an interim order, effective 1 January 1983, specifying that, until the Board issues its final order with respect to the said application, the company shall continue to charge and receive tolls determined in accordance with National Energy Board Order No. TG-5-79, as amended;

IT IS ORDERED THAT the tariff filed in accordance with Order No. TG-5-79, as amended, and the method of regulation prescribed in Order No. TG-5-79, as amended, shall be an interim tariff and an interim method of regulation and shall remain in effect only until such time as the Board issues its final order with respect to the application for certain orders respecting the company's tolls, made to the Board on 1 December 1982;

AND IT IS FURTHER ORDERED THAT this interim order shall come into effect on 1 January 1983.

National Energy Board

G. Yorke Slader
Secretary

Appendix III

ORDER NO. RH-1-83

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder;

AND IN THE MATTER OF an application by Westcoast Transmission Company Limited (hereinafter called "Westcoast" or "the Applicant") for certain orders respecting tolls pursuant to Part IV of the National Energy Board Act, filed with the Board under File No. 1562-W5-5;

AND IN THE MATTER OF a submission by Westcoast respecting its operating and maintenance expense budget pursuant to Order No. TG-5-79, filed with the Board under File No. 1562-W5-3.

BEFORE the Board on Monday, the 21th day of February, 1983.

UPON reading an application dated 1 December 1982, filed by the Applicant, for an order, pursuant to Section 17 and Part IV of the National Energy Board Act, to amend Board Order No. TG-5-79 by increasing the return on rate base from 17.90 per cent to 18.97 per cent;

AND UPON the Applicant having filed, as Volume 2 of its application, Testimony, dated 1 December 1982;

AND UPON the Applicant having, pursuant to paragraph 14 of Schedule A to Order No. TG-5-79, filed a submission dated 30 November 1982, setting forth its operating and maintenance budget for the calendar year 1983;

AND UPON the Board, by letter dated 10 August 1982, having stated its intention to examine through the public hearing process, Westcoast's 1983 operating and maintenance budget submission, the 1982 budget variance report, and all other matters relating to the Applicant's cost of service tolls which to the Board appear relevant;

AND UPON the Board, by telex dated 8 February 1983, having invited submissions from interested parties respecting other issues which may be examined at the public hearing;

AND UPON the Board having considered submissions from interested parties and the Applicant:

IT IS ORDERED THAT:

1. The application, the operating and maintenance budget submission, the 1982 budget variance report, and the matters identified in Appendix I to this Order be heard at a public hearing in the Sheraton Landmark Conference Centre, 1400 Robson Street, in the City of Vancouver, in the Province of British Columbia, commencing on Tuesday, the 19th day of April, 1983 at 9:30 a.m. local time. The proceedings will be conducted in either of the two official languages, and simultaneous interpretation will be provided should a party to the proceedings request such facilities in its intervention.

2. The Applicant shall, forthwith, serve a true copy of the application, including Volume 2, a true copy of the operating and maintenance budget for 1983, if not already served, a true copy of the 1982 budget variance report, when it becomes available, and a true copy of this Order, upon the Attorneys General of the Provinces of British Columbia and Alberta, the Secretary of the British Columbia Utilities Commission, the Canadian Gas Association and those parties listed in Appendix II to this Order, and, as soon as possible upon such other parties as have intervened pursuant to paragraph 4 hereof.

3. The Applicant shall arrange to have the Notice of Public Hearing as set out in Appendix III to this Order published on or

before the 6th day of March 1983, in one issue each of the "Times Colonist" in Victoria, the "Vancouver Sun", the "Vancouver Province" and "Le Soleil de Colombie" in Vancouver, the "Kamloops Sentinel" in Kamloops, the "Alaska Highway News" in Fort St-John, all in the Province of British Columbia; the "Journal" and "Le Franco-albertain" in Edmonton, the "Herald" in Calgary, all in the Province of Alberta; the "Globe and Mail" in Toronto, in the Province of Ontario; and as soon as possible, in the Canada Gazette.

4. Any person intending to intervene in the hearing of the said application shall, on or before the 18th day of March 1983 file with the Secretary of the Board thirty (30) copies of a written statement, in either of the two official languages, containing his reply or submission, together with any supporting material. This submission shall contain a concise statement of the facts from which the nature of the intervenor's interest in the proceedings may be determined, it may admit or deny any or all of the facts alleged in the application, it shall be endorsed with the name and address of the intervenor or his solicitor to whom communications may be sent, it shall state the official language in which the intervenor wishes to be heard, and it shall indicate whether the intervenor wishes to receive a copy of the application or a portion thereof. Intervenors shall, on or before the 18 th day of March 1983, serve three (3) copies of their submission on the Applicant, and one (1) copy each upon the Attorneys General of the Provinces of British Columbia and Alberta, the Secretary of the British Columbia Utilities Commission, the Canadian Gas Association and those parties listed in Appendix II to this Order and, as soon as possible, upon such other parties as have intervened pursuant to this paragraph, a list of which parties will be available from the Board on or about the 21st day of March 1983, and shall file written proof of service thereof with the Board at the opening of the hearing.

5. Any party who files a statement of intervention after the 18th day of March 1983 must file and serve a notice of motion requesting leave to file a late intervention. Such notice shall be filed and served in accordance with paragraph 7 of the Rules and Procedures set out in Appendix IV to this Order.

6. The Applicant shall prepare its direct evidence written in question and answer form with lines numbered (hereinafter called "written direct evidence") for each of its witnesses and shall,

(a) on or before the 11th day of March, 1983, file thirty (30) copies thereof with the Board, and

(b) as soon as possible, serve one copy of the same upon any party who has intervened pursuant to paragraph 4.

7. Any party who has intervened pursuant to paragraph 4 hereof and who wishes to present direct evidence in the hearing, shall, unless otherwise authorized by the Board, prepare written direct evidence, and shall, on or before the 8th day of April 1983, file thirty (30) copies thereof with the Board and serve one (1) copy of the same upon the Applicant and each other party who has intervened pursuant to paragraph 4.

8. The Applicant or any party who has intervened pursuant to paragraph 4 and prepared written direct evidence pursuant to paragraph 6 or 7 shall file written proof of service thereof at the opening of the hearing.

9. The Rules and Procedures set out in Appendix IV to this Order shall govern the conduct of the hearing.

10. Any interested party may examine a copy of the application and the submissions filed therewith at the office of:

National Energy Board
Trebla Building
473 Albert Street
Ottawa, Ontario
K1A 0E5

or at the office of the Applicant at the following address:

Westcoast Transmission Company Limited
1333 West Georgia Street
Vancouver, British Columbia
V6E 3K9

DATED at the City of Ottawa, in the Province of Ontario, this 21st day of February 1983.

NATIONAL ENERGY BOARD

G. Yorke Slader
Secretary

APPENDIX I

Order No. RH-1-83

In addition to the matters referred to in paragraph 1 of this Order, the Board wishes to hear the following:

1. Westcoast's request dated 4 December 1981 for an Order permitting the inclusion of costs incurred on account of the 5 per cent corporate surtax.

2. Westcoast's application dated 25 June 1982 for an Order permitting the inclusion of the Fort Nelson sulphur plant cost overruns in average monthly rate base.

3. Westcoast's application dated 15 December 1982 for an Order permitting the inclusion in the rate base of the Company of certain amounts respecting the Grizzly Valley Pipeline charged to Account 171 - Extraordinary Plant Losses in the rate base of the Company.

4. Westcoast's application dated 27 January 1983 for an Order permitting the inclusion of cost overruns of $3,586,000 in average monthly rate base.

5. Appropriateness of the procedures established by Board Order No. TG-5-79, as amended, respecting rate base additions.

6. Appropriate treatment of income taxes (normalized vs flow-through).

7. Compliance with the Federal Government's cost and price guidelines.

The Board will conduct the hearing in the following order:

A. Rate base including the matters identified in paragraphs 2 to 5, inclusive, of this Appendix.

B. Cost of service including Westcoast's 1982 budget variance report, 1983 operating and maintenance submission and the matter identified in paragraph 1 of this Appendix.

C. Income taxes including the matter identified in paragraph 6 of this Appendix.

D. Capital structure and rate of return on rate base.

Since the matter identified in paragraph 7 of this Appendix relates to several matters, it is expected that questions in this area may be addressed to various witnesses.

Parties are advised that the identification in this Order of the matters on which the Board wishes to hear evidence does not preclude parties from raising relevant issues in their intervention statement.

APPENDIX II

Order No. RH-1-83

W.D. Mitchell,
General Solicitor,
British Columbia Hydro
and Power Authority,
18th Floor,
970 Burrard Street,
VANCOUVER, British Columbia
V6Z 1Y3

Mr. Joseph M. Pelrine,
Davis & Company,
Barristers and Solicitors,
1030 West Georgia Street,
VANCOUVER, British Columbia
V6E 3C2

Mr. G.S. Thomas,
Comptroller,
British Columbia Petroleum Corporation,
6th Floor,
1199 West Hastings Street,
VANCOUVER, British Columbia
V6E 3T5

Canadian Petroleum Association,
150 - 633, 6th Avenue S.W.,
CALGARY, Alberta
T2P 2Y5

Mr. A.N. Shikaze,
Esso Resources Canada Limited,
500 Sixth Avenue S.W.
CALGARY, Alberta,
T2P 0S1

Mr. A.E. Potter,
Manager, Regulatory Affairs,
Independent Petroleum Association
of Canada,
700 - 707 - 7th Avenue S.W.,
CALGARY, Alberta
T2P 0Z2

Mr. Patrick Lloyd,
Secretary,
Inland Natural Gas Co. Ltd.,
23rd Floor,
1066 West Hastings Street,
VANCOUVER, British Columbia
V6E 3G3

Mr. D.C. Hetland,
Secretary and Solicitor,
Alberta Petroleum Marketing Commission,
1000, 2S - 5th Avenue S.W.,
CALGARY, Alberta
T2P 2V7

APPENDIX III

Order No. RH-1-83

NATIONAL ENERGY BOARD

NOTICE OF PUBLIC HEARING

WESTCOAST TRANSMISSION COMPANY LIMITED - TOLLS

The National Energy Board will conduct a hearing on an application by Westcoast Transmission Company Limited for an order, pursuant to Section 17 and Part IV of the National Energy Board Act, to amend Board Order No. TG-5-79 by increasing the return on rate base from 17.90 per cent to 18.97 per cent. The hearing will also be concerned with the Applicant's operating and maintenance budget for the calendar year 1983, filed pursuant to paragraph 14 of Schedule A to Board Order No. TG-5-79, the Applicant's budget variance report and other matters identified in Order RH-1-3.

The hearing will commence at 9:30 a.m. local time, on Tuesday, 19 April 1983, in the Sheraton Landmark Conference Centre, 1400 Robson Street, Vancouver, British Columbia.

The hearing will be public and will be held to obtain evidence and hear the relevant views of interested parties, groups, organizations, and companies on the application.

Any person wishing to intervene should write or telex the Secretary of the Board, as soon as possible, requesting a copy of Order RH-1-83 (available in English or French) which sets out the procedure for intervening and the locations at which copies of the application may be examined. The deadline for filing interventions with the Board is 18 March 1983.

For further information, telephone the Board's Information Officer, Mr. D. Sabourin, at (613) 593-6936.

G. Yorke Slader
Secretary
National Energy Board
473 Albert Street
Ottawa, Ontario
K1A 0E5
Telex No.: 053 3791

Dated at Ottawa, Canada
21 February 1983

APPENDIX IV

Order No. RH-1-83

RULES AND PROCEDURES

1. In these Rules, "party" means Westcoast Transmission Company Limited, and any intervenor who has filed with the Secretary of the Board a written statement pursuant to paragraph 4 of Order No. RH-1-83.

2. At the hearing of the application by Westcoast Transmission Company Limited, the evidence shall be heard in the order indicated in Appendix I to this Order.

3. The Board shall hear all of the evidence on each of the items referred to in paragraph 2 of these Rules, item by item, and for that purpose the Board shall first hear all of the evidence of the Applicant in respect of one item and then shall hear the evidence of each of the intervenors in respect of the same.

4. Upon the completion of the evidence on all items referred to in paragraph 2 of these Rules, the Board shall hear the oral argument of all parties.

5. Any party who wishes to obtain additional information from another party in respect of matters raised in filings made with the Board, may request in writing that such information be provided. A copy of the request shall be filed with the Board. The party to whom the request is made shall, as soon as possible, either provide a written response to the request or refer the question to the Board under paragraph 7 hereof. A copy of the response shall be filed with the Board and served on all other parties. In order to expedite the hearing, such requests shall be made on or before 18 March 1983. Copies of all requests and responses shall be filed as exhibits at the hearing.

6. Any party receiving an information request shall respond on or before 31 March 1983 by filing with the Secretary of the Board thirty (30) copies of the response, and shall file the information request and its response together as an exhibit at the hearing.

7. If any question arises upon which a decision of the Board may be required, a notice of motion with respect thereto shall be filed with the Secretary of the Board, and the motion shall be heard by the Board at the hearing on a date to be fixed by it.

8. The order of appearance of parties and sequence of adducing evidence and conducting cross-examination shall be announced by the Board on or before the opening of the hearing.

Appendix IV

File: 1562-W5-5

6 April 1983

Mr. A.H. Willms
Senior Vice-President
Westcoast Transmission Company Limited
1333 West Georgia Street
Vancouver, B.C.
V6E 3K9

Dear Mr. Willms:

Re: Westcoast Transmission Company Limited Toll Application dated 1 December 1982 Hearing Order No. RH-1-83

This is to advise you that, at the Hearing commencing 19 April 1983, in addition to the matters referred to in Appendix 1 to Hearing Order No. RH-1-83 the Board intends to examine the appropriateness of the continuation in rate base of the costs associated with Vancouver Island Pipeline - Preliminary Surveys and Investigations.

Yours truly,

G. Yorke Slader,
Secretary.

c.c. Interested Parties
to RH-1-83

Appendix V

BOARD DECISION ON GRIZZLY VALLEY PIPELINE DATED 2 MAY 1983

THE CHAIRMAN: The Board has considered further the representations respecting the Grizzly Valley matter.

With respect to the Board's decision of Friday, April 22, 1983 relating to the Grizzly Valley Pipeline, the Board has considered the additional submissions of Monday, April 25, 1983, Wednesday, April 27, 1983, and Thursday, April 28, 1983.

On February 3, 1978, the Board granted Certificate of Public Convenience and Necessity GC-58 to Westcoast to construct the Grizzly Valley Pipeline and the Pine River gas processing plant. This was a project for sour gas recovery and treatment. The pipeline itself was completed much earlier than the gas plant. Leave to open the pipeline for sweet gas service was granted on December 1, 1978. The system went into sour gas service in February 1980. The pipeline failed while in sour gas service on July 20, 1981. This break was followed by a second break on July 27, 1981.

The pipeline was repaired but Westcoast did not receive authorization to operate the line in sour gas service. As a result Westcoast was authorized to replace those portions of the line which were found to be unsuitable for normal sour gas service. The portions which have been replaced and which are now abandoned had, according to Westcoast, an original cost of $6.8 million.

By an application dated December 15, 1982, Westcoast has applied to the Board for authorization to treat the costs of the abandoned line as an extraordinary retirement. This application was incorporated by Board Order RH-1-83 dated February 21, 1983 into the present proceeding. The gist of Westcoast's application is to amortize the costs of the abandoned line over a period of 60 months.

The costs of the replacement project were estimated, at the time approval of the project was given, to be $22,032,000. The actual cost was $24,203,000. The replacement line was opened for sour gas service in late 1982 and 105% of the estimated cost of $22,032,000 is, as a result, included in rate base pursuant to the provisions of Order No. TG-5-79, as amended. By an application dated January 27, 1983, Westcoast has applied for the inclusion in rate base of those costs of the replacement project which exceed 105% of the estimated costs. These excess costs amount to some $1,069,000. This application — which we refer to as the overrun application — was also incorporated by Board Order RH-1-83 dated February 21, 1983 into the present proceeding.

In a response dated March 22, 1983, to a Board information request dated February 28, 1983, Westcoast advised the Board that on May 4, 1982, it had commenced action in the British Columbia Supreme Court against certain companies which it claims are responsible for the costs of the replacement project. The damages claimed are based on the estimated replacement cost of $22,032,000. Westcoast is also claiming pre-judgment interest. Westcoast's claim is based on allegations of breach of contract, fundamental breach of contract, and negligence. The action is actively defended and there are counter-allegations of contributory negligence against Westcoast. The action is expected to reach trial in the Fall of 1984. The defendants in the Court action are not parties to the present proceeding before the Board.

On April 22, 1983, counsel for the British Columbia Petroleum Corporation presented a motion with respect to the costs associated with the Grizzly Valley pipeline. It was BCPC's position that these costs should be dealt with on an interim basis pending the outcome of the court action. Counsel for BCPC submitted that this proposal was justified for several reasons. Firstly, if the court action were resolved entirely in

Westcoast's favour, it would make it unnecessary for the Board to determine the question of rate base treatment for these costs. Secondly, if it did become necessary for the Board to consider this question, then the findings of the Court could be relevant to the Board's consideration. Thirdly, deferring a final decision on the matter would spare the cost, time, and effort of a lengthy parallel proceeding. Fourthly, an interim order would provide an appropriate balance between the interests of Westcoast and the interests of other parties to the Board's proceeding. Westcoast could recover its carrying costs on the funds which have been expended by it in connection with the Grizzly Valley pipeline. The position of the other parties would also be protected since an interim order would permit the Board to adjust the provisions of the interim order retroactively if later circumstances so warranted. Finally, all parties would have an opportunity to comment on an appropriate final order once the various questions surrounding the litigation had been resolved.

The motion was opposed by Westcoast. Counsel for Westcoast submitted that the motion was premature since BCPC could make the argument at the close of the proceeding. He submitted that the Board was able to deal with the matter; that a determination by the British Columbia Supreme Court was irrelevant to the issues before the Board; and that the Board was obligated as a matter of regulatory principle and law to dispose of the matter. He further submitted that the procedure proposed by BCPC would be unfair to Westcoast and unreasonable in the circumstances. He stated that it was Westcoast's position that it was entitled to its rate of return on rate base on the costs of its pipeline assets and, in addition, that the proposed extraordinary retirement of the abandoned portions of the Grizzly Valley pipeline was in accordance with the Board's Uniform Accounting Regulations. Finally, he submitted that the Board had available to it all the information necessary to decide the matter. He particularly referred to the Board Staff Report, Review of Investigations Concerning the Grizzly Valley Pipeline Incidents, September 1982.

Following consideration, the Board rendered its decision on the motion on April 22, 1983. The Board decided to defer a detailed examination of the circumstances which necessitated the Grizzly Valley replacement project until the court action is resolved. The Board also stated its intention to consider and decide the appropriate treatment to be accorded the costs of the original project and the costs of the replacement project pending the resolution of the litigation. The Board stated that before disposing of the matter as part of its overall decision, it would like to hear the views of all parties. In addition, the Board stated its intention to dispose of the overrun application although the treatment of such costs as might be allowed would be subject to the treatment decided upon by the Board for the costs of the replacement project as a whole.

The decision by the Board to consider the appropriate treatment of the total costs of the replacement project pending the resolution of the litigation had the effect of putting parties on notice that this issue would be considered in the present proceeding although Board Counsel had already informally advised counsel for Westcoast shortly before the commencement of the hearing of his intention to raise the issue in cross-examination of Westcoast's witnesses. Board Counsel advised the Board of this informal communication at the opening of the hearing on April 19, 1983, at page 38 of the transcript.

In an exchange with the Chairman immediately following the rendering of the Board's decision of April 22, 1983, counsel for Westcoast expressed his dismay at the proposed examination of the treatment of the entire costs of the replacement project in the hearing but reserved further comment until he had had the opportunity to seek further instructions.

On Monday, April 25, 1983, counsel for Westcoast addressed the Board with respect to its decision of April 22, 1983. It was Westcoast's position, as expressed by its counsel, that the Board's decision to defer a detailed examination of the circumstances which necessitated the Grizzly Valley replacement project until the court action is resolved would, if carried out, constitute a refusal to function. In support of this position, the Board was referred to Canadian Pacific Railway vs. the Province of Alberta et al. (1950) S.C.R. 25.

The Board directed that parties wishing to speak to this matter would have the opportunity to do so on April 27, 1983. On

the 27th, counsel for Westcoast declined the opportunity to make further submissions on the question of the Board's decision of April 22, 1983. The Board then heard the views of other parties.

Counsel for BCPC submitted that the Board's decision did not constitute a refusal to function. He noted that the Canadian Pacific case involved a decision by the Board of Transport Commissioners to defer a final decision on a matter before it until after a Royal Commission had concluded its hearings and made its report and possibly until any amendments to existing legislation which might be recommended had been dealt with by Parliament, and also until a general freight rates investigation which the Board had been directed to undertake had been concluded. Counsel for BCPC noted that the Board's decision was not of that kind. Instead the Board had decided to defer its final decision until the case before the British Columbia Supreme Court had been resolved. This decision was, in counsel's submission, sound. In support of his argument counsel for BCPC referred to Re Public Utilities Act, 37 W.W.R. 331, and Calgary & Edmonton Corporation Ltd. v British American Oil Co. Ltd., 40 D.L.R. (2d) 964.

The Board notes that counsel for Westcoast confined his submissions in respect of the decision of April 22, 1983, to the issue of a refusal to function.

Following the reply submissions by counsel for Westcoast, the Board directed a number of questions to counsel. Certain of those questions were responded to on April 28, 1983.

After careful consideration, the Board, for the reasons which follow, confirms its decision of April 22, 1983.

Firstly, if Westcoast were entirely successful in the litigation before the British Columbia Supreme Court, there would be no question for the Board to decide. Westcoast would recover the costs of replacement project from some of or all the defendants and there would be no question of recovering the investment through the tolls charged by Westcoast. Even partial success in the court action would have an impact on what the Board would ultimately be called upon to decide.

Secondly, if the Board were to examine at this time the prudence of the costs incurred by Westcoast in connection with the Grizzly Valley pipeline, the Board would wish to examine in detail the circumstances which necessitated the replacement project. In examining those circumstances, the Board would wish to examine the conduct and actions of Westcoast, the pipe manufacturer, and the other companies involved as well as the contractual relationships between Westcoast, the pipe manufacturer, and the other companies involved.

The Board's examination of these issues would involve a costly, time consuming and lengthy proceeding. The Board cannot say if such a proceeding would come to an end significantly sooner than the court action. In that regard the Board Staff Report identifies the probable cause of the pipeline failures from a technical perspective but it does not go further. There is as well the fact that the defendants in the court action are not presently parties before the Board. The Board would, of course, wish to hear the views of the defendants in the court action. The allegations of the defendants in the court action are plainly relevant to a determination of prudence.

Thirdly, while the concepts of prudence and negligence are not identical, the Board considers that a finding with respect to negligence is relevant to a determination of the question of prudence. In that regard, any decision by the British Columbia Supreme Court on this question would be relevant.

Fourthly, the interpretation of the contractual relationships into which Westcoast has entered is relevant to any decision the Board may ultimately be called upon to make. The Board considers that questions of breach of contract and fundamental breach of contract are, in the present circumstances, better decided in a judicial rather than a quasi-judicial proceeding.

Fifthly, the Board notes the proposal by BCPC for an interim order to ensure that Westcoast recovers its carrying costs in the interim. The Board will give full consideration to the appropriate treatment to be accorded the costs of the original project and the costs of the replacement project pending the resolution of the court case.

Sixthly, such an interim order will be designed to strike a balance between the interests of Westcoast as the party having made the investment in this pipeline and the interests of other parties who may be concerned that a final order would put these costs beyond reach should the outcome of the litigation warrant an adjustment at that time. The Board will, of course, have due regard to its own policies and its Uniform Accounting Regulations.

Seventhly, the Board's decision spares the expense of a parallel proceeding which could prove a fruitless duplication if Westcoast is successful in its court action.

Eighthly, the Board's decision avoids a parallel proceeding in respect of the same circumstances which could prove prejudicial to the court case.

Ninthly, the Board's decision avoids the injustice which would occur should the Board and the British Columbia Supreme Court make conflicting findings.

Lastly, the Board does not consider that its decision constitutes a refusal to function.

As a result, the Board confirms its decision of April 22, 1983. The Board will consider and decide as part of this proceeding the appropriate order to be made pending the outcome of the litigation as set out in its decision of April 22, 1983, as elaborated by these reasons. The Board is of the opinion that this decision is in accord with both reason and justice.

Finally, the Board does not wish its decision to be misconstrued. The Board does not consider itself legally bound by the outcome of the litigation but does consider that the outcome of the litigation is relevant for the reasons set out above.

The Board wishes to say that, given Westcoast's position as expressed in its Statement of Claim in the court action, it considers Westcoast's decision to commence and pursue the litigation to be entirely proper.

That is the ending of our conclusions in this matter.

Appendix VI

CALCULATION OF RATE BASE AND TOTAL AVERAGE CAPITALIZATION

($000)

Average Rate Base [1]			751,519
Add:	Original Grizzly Valley Line	5,196 [2]	
	Other Overruns	2,199 [3]	
	Deferred Income Taxes	4,291 [4]	11,686
			763,205
Deduct:	Grizzly Valley Replacement	8,635 [5]	
	Taylor Line Break	18 [6]	
	Vancouver Island Project	1,683 [7]	
	Other Rate Base Items	4,786 [8]	15,122
Adjusted Average Rate Base			748,083
Average Construction Work in Progress [9]			22,828
Total Average Capitalization			770,911

(1) Average of line 18, Tab 1 Rate Base, page 2 of 2 of Exhibit 4

(2) Calculated from Part II, Tab 1 of Exhibit 9

(3) Calculated from Part III of Exhibit 9 (Excludes Grizzly Valley Pipeline Replacement and Line Break - Taylor)

(4) Difference per Schedule 2 of Exhibit 129.

(5) The average amount, net of accumulated depreciation removed from rate base as at 1 September, 1983.

(6) Difference between $284,000 and $266,000 (Refer to Section 4.2.2).

(7) Average amount per lines 2 and 7, Rate Base Tab 5, page 2 of 2, of Exhibit 4.

(8) Average amount per lines 1 and 7, Rate Base, Tab 11, of Exhibit 4.

(9) Average CWIP per page 3 of 3, Tab 2, Rate Base of Exhibit 4.

Appendix VII

ORDER NO. AO-19-TG-5-79

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an application by Westcoast Transmission Company Limited (herein after called "Westcoast" or "the Applicant") for a certain order respecting tolls pursuant to Part IV of the National Energy Board Act, filed with the Board under file number 1562-W5-5;

AND IN THE MATTER OF a submission by Westcoast respecting its Operating and Maintenance Expense Budget pursuant to Order No. TG-5-79, filed with the Board under file number 1562-W5-3.

BEFORE:

A.D. Hunt Presiding Member	)	
A.B. Gilmour Member	)	Thursday, the 4th day of August, 1983
W.G. Stewart Member	)	

UPON the Board, by letter dated 10 August 1982, having stated its intention to examine, through the public hearing process, Westcoast's 1983 Operating and Maintenance Budget Submission, the 1982 Budget Variance Report, and all other matters relating to the Company's cost of service tolls which appear relevant to the Board;

AND UPON an application by Westcoast, dated 1 December 1982, for an order, pursuant to section 17 and Part IV of the National Energy Board Act, effective 1 January 1983, disallowing the existing tolls to be charged and received by Westcoast in accordance with the schedule of tolls filed by Westcoast pursuant to Order No. TG-5-79, and prescribing a new schedule of tolls;

AND UPON Westcoast having filed a submission dated 30 November 1982 setting forth its Operating and Maintenance Budget for the calendar year 1983;

AND UPON Westcoast having filed, in a submission dated 25 February 1983, its 1982 Budget Variance Report;

AND UPON the Board having heard the evidence and argument of all parties at a public hearing which commenced on the 19th day of April, 1983;

AND UPON THE Board being satisfied that the tolls to be charged and received by Westcoast, in accordance with Order No. TG-5-79, as amended by this Order, and the Board's Reasons for Decision dated August, 1983 in this matter are just and reasonable;

IT IS ORDERED THAT:

Order No. TG-5-79 be and the same is hereby changed, altered and varied

1. by adding thereto the following:

"24. Westcoast's deferred Operating and Maintenance Expenses for the 12-month period ending on the 31st day of December, 1982, in the amount of 1,599,000 dollars plus carrying charges calculated monthly at the rate specified in paragraph 9.2 of this Order for the period ending on the 31st day of August, 1983, be and the same is hereby approved.

25. Westcoast shall include in its cost of service for the month of September, 1983, the amounts specified in paragraph 24 of this Order, which amount shall be distributed, in accordance with paragraph 3 of Schedule C of this Order, to all sections of Westcoast's utility system except Section 12.

26. Westcoast shall separately identify in a report filed with the Board for the month of September, 1983, pursuant to paragraph 13 of Schedule A to this Order, the amount recovered in its cost of service pursuant to paragraph 24 of this order."

2. (a) by adding thereto immediately after paragraph 9.2 thereof the following:

"9.3 Where Westcoast incurs expenses in respect of the categories of expenses referred to in paragraph 8.4 which are in excess of the amounts specified for those categories for each cost centre as set out in the Schedule J to this order, Westcoast shall include those excess expenses in Account 179 - Other Deferred Debits together with carrying charges on the month-end balance of the account at 1/12 of the prime interest rate charged by Westcoast's bankers for each such month."

(b) by revoking Schedule J thereof and substituting therefor the attached Schedule J.

3. by revoking, effective 1 January 1983, paragraph 5 thereof and substituting therefor the following:

"5. Westcoast shall adopt the flow-through method of tax accounting in respect of current income taxes for both accounting and cost of service toll purposes."

4. by revoking, effective 1 January 1983, paragraph 7 thereof and substituting therefor the following:

"7. Westcoast shall utilize the Rate of Return after taxes on rate base of 12.05 percent for cost of service toll purposes."

5. by revoking, effective 1 January 1983, paragraph 6 of Schedule A to the said Order, and substituting therefor the following:

"Cost of Service

6. The following represent costs that the Board is prepared to allow to be flowed through into the monthly cost of service automatically, provided the principles or methods of computation have been previously approved, or where the costs are largely outside the control of the company:

- operating and maintenance expenses
  (a) salaries, wages and benefits
  (b) other expenses
  (c) contingencies
  for each of these items up to an annual budget previously approved by the Board;
- municipal taxes (in the absence of unusual circumstances);
- depreciation;
- amortization (once the item to be amortized has been authorized);
- actual gains and losses on foreign exchange transactions;
- return after taxes on rate base;
- income taxes;
- surtaxes, and
- miscellaneous operating revenues (as a credit to the cost of service)."

6. by revoking, effective 1 January 1983, paragraph 1(c)(xii) of Schedule B to the said Order and substituting therefor the following:

"(xii) Deferred Income Taxes

The amount to be deducted from rate base in any month for Deferred Income Taxes shall be the total accumulated deferred income taxes as at 31 December 1982."

7. by revoking, effective 1 January 1983, paragraph 2(a) of Schedule B to the said Order and substituting therefor the following:

"(a) The monthly cost of service for toll purposes shall consist of the following components:

Operating and Maintenance Expenses

Depreciation
Amortization Taxes
Other Than Income Taxes
Miscellaneous Operating Revenues
Foreign Exchange Gains or Losses on Debt
Return after Taxes on Rate Base
Income Taxes
Surtaxes
Other Cost of Service Adjustments"

8. (a) by revoking, effective 1 January 1983, paragraphs 2(b)(viii) and 2(b)(ix) of Schedule B to the said Order and substituting therefor the following:

"(viii) Return on Rate Base The Return after Taxes on Rate Base shall be the amount calculated by multiplying 1/12 of the allowed Rate of Return of 12.05 percent by the average monthly Rate Base for toll purposes.

(ix) Income taxes

Income Taxes shall be the amount calculated by:

(1) multiplying the average Rate Base by 1/12 of the sum of the allowed weighted average costs of preferred and common equity;

(2) adding to or deducting from the product determined in (1) above, all permanent and timing differences attributable solely to the operations regulated by this Board and that part of other permanent and timing differences that relate to the operations regulated by the Board, including, but not limited to, the following:

a. depreciation and amortization;
b. amortization of financing expenses;
c. amortization of dessicant;
d. foreign exchange loss on principal repayments;
e. non-deductible excess pension contribution;
f. booked gains on debt purchases;
g. inventory allowance;
h capital cost allowance;
i. cumulative eligible capital expenditures;
j. financing expenses;
k. dessicant expenditure;
l. engineering studies;
m interest portion of allowance for funds used during construction;
n. overhead during construction;

(3) multiplyfng the resulting amount by a tax factor determined by the formula

$$\frac{\text{tax rate}}{100 - \text{tax rate}}$$

Detailed calculations of each component of the income tax amount included in the cost of service should be included in the monthly information filing with the Board."

(b) by adding thereto immediately after paragraph 2(b)(ix) the following:

"(x) Surtaxes

Surtax, if any, on income taxes shall be the amount of surtax paid in the month.

(xi) Other cost of service adjustments

Other Cost of Service Adjustments shall include: credits or debits arising from gains or losses on line pack revaluations; credits or debits arising from the purchase of best efforts gas (see Schedule C of this Order, Item 5, Best Efforts Gas); Board dispositions allowing deferred costs (including carrying charges) arising from overruns of Operating and Maintenance Expenses; and other costs which have been approved by the Board under the special provisions of the "Method for Regulating the Tolls of Westcoast" described in Schedule A of this Order."

9. by revoking, effective 1 January 1983, paragraphs 3(g) and (h) of Schedule C to the said Order, and substituting therefor the following:

"(g) income taxes shall be allocated to the sections on the same basis as rate base.
(h) return after taxes on rate base shall be allocated to the sections on the same basis as rate base.
(i) other cost of service adjustments shall be allocated to the sections using a suitable allocation method for each item which is generally in accordance with the allocation principles set out for other corresponding items."

10. by adding thereto, immediately after paragraph 26 thereof, the following:

"27. Westcoast shall include in its cost of service for the month ended September 30, 1983, surtax on income tax in the amount of $1,485,00 together with carrying charges thereon at the prime rate of interest charged by Westcoast's bankers in that month.

28. Westcoast is directed, effective 1 January 1983 to remove from Gas Plant in Service the difference between $98,000 and the amount presently in that account with respect to the Taylor line-break project; to adjust its accounts accordingly; and to credit the cost of service for September 1983 with the appropriate adjustment.

29. Westcoast is directed, effective 1 January 1983, to include in Gas Plant in Service the amount of $2,251,000 with respect to overruns on projects other than the Grizzly Valley Pipeline Replacement and the Taylor line-break; to adjust its accounts accordingly; and to debit the cost of service for September 1983 with the appropriate adjustment.

30. Westcoast is directed, effective 23 November 1982, to include in Gas Plant in Service the overruns of $8,556,830, $51,500 and $40,250 arising from the Fort Nelson Sulphur Plant Expansion project and the two related class "C" projects; to credit the cost of service for September 1983 with the difference between the amount approved in the Board's interim decision of 23 November 1982 and this (August 19B3) decision; and to adjust its accounts accordingly.

31. Westcoast is directed to transfer all Vancouver Island Project hearing costs charged to Preliminary Surveys and Investigations as at 31 August 1983 to a deferral account and to record therein all such hearing costs incurred after that date; to transfer all Vancouver Island Project non-hearing costs charged to Preliminary Surveys and Investigations as at 31 August 1983 to a separate deferral account and to record therein all such non-hearing costs incurred after that date; and to accumulate in each of the said accounts carrying charges calculated monthly at 1/12 of the authorized annual rate of return on rate base.

32. Westcoast, at its option, shall: (a) credit in equal amounts to the cost of service for the months of September, October, November and December 1983 the difference between the provision for rate of return and income taxes prescribed in this Order and the amounts collected by Westcoast in its cost of service for the months commencing 1 January 1983 and ending 31 August 1983 in respect of rate of return and income taxes, together with monthly carrying charges on such difference at 1/12 of the prime interest rate charged by Westcoast's bankers for each such month, and in addition thereto the Company shall include carrying charges at the same rate on that portion of the difference not credited to the Cost of Service in each of the months of September, October, November and December 1983; or (b) refund or credit to the cost of service for the month of September 1983 the said difference together with carrying charges at the said rate."

11. by revoking paragraph 7 of Schedule A to the said Order, and substituting therefor the following:

> "7. The following represents costs for which interested parties will have the right to approval of the Board;
>
> - annual budgets of operating and main tenance expenses;
> - disposition of deferred costs arising from overruns of salaries, wages and benefits in operating and maintenance expenses, other expenses and contingencies (deferral costs will include a monthly carrying charge of 1/12 of prime bank rate);
> - changes in the bases of allocating Westcoast's administrative and general expense to its pipeline operations, changes in method of determining the overhead during construction, and changes in any other bases of allocating Westcoast's costs to its pipeline operations."

12. by revoking paragraph 14 thereof and substituting therefor the following:

> "14. With respect to its Operating and Maintenance Expenses, Westcoast shall (a) by the 1st day of December in each year, commencing with 1983, file, in a form satisfactory to the Board, and serve on interested parties its Operating and Maintenance Expense budget

submission for the next succeeding year setting out for each cost centre specified in Schedule G, its budgets for:

(i) salaries, wages and benefits,
(ii) other expenses, and
(iii) contingencies,

together with an analysis of those budgets similar to that in Exhibit 7 filed in the hearing held pursuant to Order No. RH-1-81, and

(b) by the 28th day of February in each year, commencing with 1982, file with the Board and serve on interested parties an analysis of the variances between the approved budgets and actual expenses incurred for the prior year for each category of expense in each cost centre specified in Schedule G, together with any application for approval of overruns for each category of expense in each cost centre specified in Schedule G."

AND IT IS FURTHER ORDERED THAT:

13. Order No. TG-5-79, as amended by this Order, be and the same is hereby confirmed.

14. Notwithstanding Order No. TG1-2-82, the said interim order shall remain in effect until 31 August 1983 and the cost of service for the month of August 1983 shall be calculated in accordance with the provisions of the said interim order as if this Order had not been issued.

NATIONAL ENERGY BOARD

G. Yorke Slader
Secretary

SCHEDULE J

Approved Budgets for Westcoast Transmission Company Limited by Cost Centre for the Twelve Months commencing on 1 January 1983 and ending on 31 December 1983

The approved budgets for salaries, wages and benefits for Other Expenses and for Contingencies are:

($000)

Cost Centre	Salaries Wages and Benefits	Other Expenses	Contingent Items	Total Operating and Maintenance
Northern District	7,645	6,723	315	14,683
Southern District	5,518	3,286	203	9,007
Fort Nelson Plant	6,522	6,755	315	13,592
McMahon Plant	-	3,741	180	3,921
Taylor Sulphur Plant	708	647	23	1,378
Pine River Plant	2,069	1,383	90	3,542
Other Cost Centres	612	1,221	-	1,833
Vancouver Departmental	9,309	1,976	-	11,285
General Administrative	(81)	5,541	-	5,460
	32,302	31,273	1,126	64,701

AO-19-TG-5-79

Appendix VIII

ORDER NO. AO-20-TG-5-79

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF the tolls being charged by Westcoast Transmission Company Limited (hereinafter called "Westcoast") under Order No. TG-5-79, as amended, made pursuant to sections 50 and 53 of the National Energy Board Act; and

IN THE MATTER OF an application by Westcoast for an Order authorizing the treatment of certain amounts respecting the Grizzly Valley Pipeline as an extraordinary retirement; and

IN THE MATTER OF an application by Westcoast for, inter alia, an Order permitting the inclusion of certain cost overruns respecting the Grizzly Valley Pipeline in average monthly rate base; and

IN THE MATTER OF a decision by the Board dated 22 April 1983 as confirmed 2 May 1983 respecting certain costs of the Grizzly Valley Pipeline. Board File Nos. 1562-W5-3 and 1562-W5-5.

BEFORE:

A.D. Hunt Presiding Member	)	
A.B. Gilmour Member	)	on Thursday, the 4th day of August, 1983.
W.G. Stewart Member	)	

UPON Westcoast having applied by application dated 15 December 1983 for authorization to treat certain amounts respecting the Grizzly Valley Pipeline as an extraordinary retirement in accordance with a proposal set out in the said application;

AND UPON Westcoast having applied by application dated 27 January 1983 for, inter alia, approval pursuant to paragraph 16 of Schedule A to Order No. TG-5-79, as amended, to include in average monthly rate base $1,069,000 respecting the Grizzly Valley Pipeline Replacement;

AND UPON Westcoast having commenced action in the British Columbia Supreme Court to recover the costs of the Grizzly Valley Pipeline Replacement;

AND UPON the Board, in a decision dated 22 April 1983 as confirmed 2 May 1983, having decided to determine the appropriate treatment to be accorded the costs of the original Grizzly Valley project and the costs of the replacement project pending the resolution of the said action;

AND UPON the Board having heard the evidence and argument of all parties at a public hearing which commenced on the 19th day of April 1983;

IT IS ORDERED THAT:

1. Order No. TG-5-79, as amended, be and the same is hereby changed, altered and varied by adding thereto the following:

"33. (1) In this paragraph "the interim" means the period commencing 1 September 1983 and ending with the resolution, by judgement, settlement, or otherwise, of an action commenced by Westcoast in the British Columbia Supreme Court to recover the costs of the Grizzly Valley Pipeline Replacement or the period commencing 1 September 1983 and ending 31 December 1985 whichever is shorter.

(2) The original cost, $6,800,000, of that portion of the Grizzly Valley

Pipeline which has been replaced as a result of failures occuring in July, 1981 shall, in the interim, remain in Gas Plant in Service."

(3) Notwithstanding any other provision of this Order Westcoast, in the interim, shall:

(a) transfer to Account 179, Other Deferred Debits,

(i) $23,134,000 from Gas Plant in Service, being 105 percent of the estimated cost of $22,032,000 for the Grizzly Valley Pipeline Replacement, and

(ii) the accumulated depreciation as at 31 August 1983 associated with the amount referred to in sub-paragraph (i).

(b) include in Account 179, $1,069,000, being the costs in excess of 105% of the estimated cost of $22,032,000 of the Grizzly Valley Pipeline Replacement, and

(c) include in Account 179, in respect of the net amounts included in the Account by virtue of sub-paragraphs (a) and (b), carrying charges on the month-end balance of the account at 1/12th of the authorized annual rate of return on rate base.

(4) This paragraph is subject to the provisions of section 52.2 of the National Energy Board Act.

(5) The Board may, subject to such procedures as it may direct, extend the interim as defined in subsection (1) for a period, fixed by order, ending later than 31 December 1985 in the event that the action referred to in subsection (1) is not resolved by 31 December 1985."

NATIONAL ENERGY BOARD

G. Yorke Slader
Secretary